Ports Canada

1997 Annual Report

Ports Canada Profile

Ports Canada describes a federal system of ports administered pursuant to the *Canada Ports Corporation Act* which was proclaimed in 1983. Seven of these ports are autonomous local port corporations located in Halifax, Montréal, Prince Rupert, Québec, Saint John, St. John's and Vancouver. The other ports are administered on a divisional basis by the Canada Ports Corporation and are located in Belledune, Port Colborne, Prescott, Port Saguenay/Baie des Ha! Ha!, Sept-Îles and Trois-Rivières. The Corporation also owns Ridley Terminals Inc., a bulk handling terminal located in Prince Rupert.

Ports Canada handles nearly half of the overall Canadian port traffic. It is, therefore, an effective means for the implementation of the national ports policy. The policy provides for, at the best cost possible, and in a manner equitable to all users, the services necessary for Canada's international shipping trade at national, regional and local levels.

The system operates on a decentralized basis; each of the local port corporations functions with a high degree of autonomy in the administration of their respective port. In providing a public service, the ports are administered according to common commercial principles.

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Ports Canada Perspective

Total cargo traffic, which includes waterborne cargo handled through both the terminals owned by Ports Canada and by private facilities within the jurisdiction of the member ports, amounted to 193.1 million tonnes in 1997. This was an all-time record for the Ports Canada system, 3.4 percent above the previous record of 186.8 million tonnes recorded in 1988 and 4.3 percent above the total 1996 traffic level of 185.2 million tonnes.

The Ports Canada system registered a record traffic level for dry bulk cargo in 1997 at 119.2 million tonnes. The major dry bulk commodities comprise coal, iron ore and grain. Coal traffic in 1997 increased by six percent to 36.4 million tonnes. Iron ore shipments in 1997 were 26.1 million tonnes, up seven percent from 1996. In 1997, 24.2 million tonnes of grain were handled by Ports Canada ports, up 12 percent.

General cargo also registered a record year with 28.3 million tonnes, up seven percent from 1996. Two thirds of general cargo is containerized and both containerized tonnage and the number of container boxes, measured as twenty foot equivalent units (TEUs), registered record levels in 1997. The five container ports, St. John's, Halifax, Saint John, Montréal and Vancouver, handled 2.2 million TEUs in 1997, exceeding the two million TEU level for the first time in Ports Canada's history. Total container tonnage increased by 11 percent from 16.8 million tonnes in 1996, the previous record, to 18.6 million tonnes in 1997.

Forest products traffic is the most important category of general cargo and Ports Canada ports handled 11.6 million tonnes in 1997, down two percent from 1996 traffic levels of 11.8 million tonnes.

At the Port of Halifax, traffic was up by nine percent in 1997 to 14.1 million tonnes from 12.9 million tonnes in 1996. The increase was primarily due to a 20 percent increase in container tonnage. Containerized cargo totalled 3.8 million tonnes which was handled in a record 459,000 TEUs. This was due to expansion of the global economy and improved access to the US midwest provided by the Sarnia/Huron tunnel.

Continued growth in container traffic and increased handling of dry bulk, in particular grain, propelled traffic at the Port of Montréal to 20.7 million tonnes in 1997, a four percent increase over 1996. Container traffic at the Port of Montréal, which is Canada's busiest container port, established yet another record in 1997 at 8.2 million tonnes or 870,000 TEUs, up three percent and two percent, respectively. Thanks to an excellent Prairie harvest in 1996, the port handled 2.8 million tonnes of grain in 1997, the highest tonnage in nine years.

Throughput at the Port of Prince Rupert in 1997 totalled 13.1 million tonnes, the third best year in the port's history. This was a 30 percent increase over 1996 when 10.1 million tonnes was handled. The growth was mainly due to increased grain traffic from 3.7 to 5.1 million tonnes and increased coal traffic from 5.2 to 6.6 million tonnes.

The Port of Québec registered a drop in traffic from 17.2 million tonnes in 1996 to 15.5 million tonnes in 1997. This drop was primarily of liquid bulk, handled on private wharves. There was a slight increase in this port's ore traffic in 1997 from 2.1 to 2.2 million tonnes and a drop in grain traffic from 3.2 to 2.9 million tonnes.

Total traffic through the Port of Saint John in 1997 exceeded 21 million tonnes for the second year in a row and was the best year on record in terms of tonnage. Petroleum traffic continued to grow by four percent to reach 17 million tonnes in 1997. Container traffic increased by 16 percent in 1997, to attain 278,000 tonnes following a 19 percent growth in 1996, the best container tonnage since 1986. Although forest products traffic fell by 15 percent to 902,000 tonnes in 1997, the Port of Saint John still remains the most important forest products port in eastern Canada in terms of tonnage.

The Port of St. John's recorded total port traffic of 954,000 tonnes, up 15 percent from 1996, the best year in terms of tonnage since 1990. Factors contributing to the increase include a four percent increase in containerized general cargo to 356,000 tonnes in 1997 from 342,000 tonnes in 1996.

In 1997, the Port of Vancouver set a new traffic record for the third year in a row. Total traffic at the port amounted to 73.5 million tonnes, up two percent from the previous record of 72.0 in 1996. The most important gain was the 16 percent growth in container tonnage to 5.9 million tonnes in 1997 from 5.1 million tonnes in 1996.

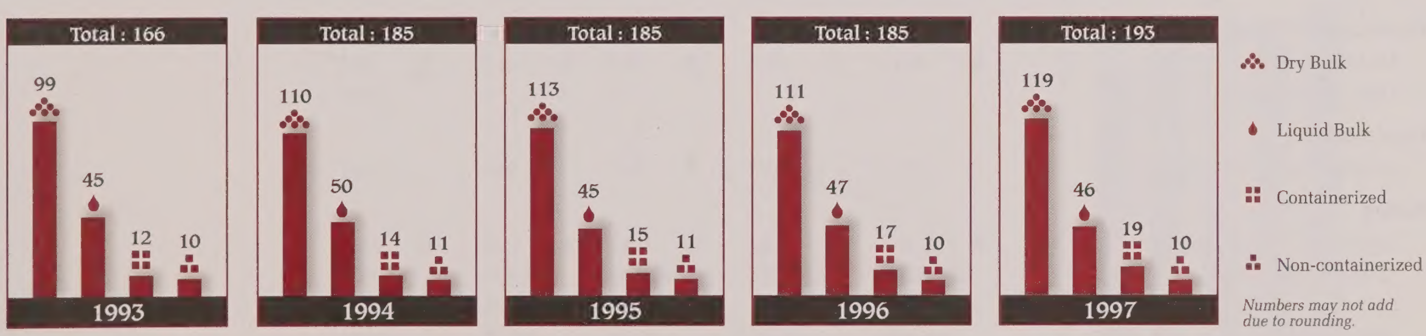
In 1997, the Port of Belledune reported a 50 percent increase in traffic over 1996 to 2.1 million tonnes.

The Port of Churchill was transferred to the Hudson Bay Port Authority, a private sector operator, on September 4, 1997. Approximately 188,000 tonnes were shipped through the port in 1997 while it was under Canada Ports Corporation management.

Traffic at Port Saguenay registered an eight percent increase to 320,000 tonnes in 1997, mainly because of a return to normal quantities of salt traffic. The neighboring private port facilities at Baie de Ha! Ha! experienced a 10 percent increase in traffic to 4.2 million tonnes from 3.8 million tonnes in 1996.

The Port of Sept-Îles experienced eight percent growth in traffic to 24.5 million tonnes from 22.6 million tonnes in 1996. The Port of Trois-Rivières recorded traffic levels of 2.4 million tonnes in 1997, a four percent increase over 1996.

Total Port Cargo *(million tonnes)*



Ports Canada Financial Review

Cargo volumes in 1997 exceeded 1996 levels at most ports. As a result, revenue from operations for Ports Canada reached $244.6 million in 1997, an increase of $9.6 million over 1996. Increased container traffic at the ports of Vancouver and Halifax contributed significantly to the higher revenues.

Operating expenses of $182.7 million were $6.8 million higher compared with 1996. A major part of this increase is attributed to higher one-time costs at several ports as a result of the reorganization of policing and security services and the closure of Ports Canada Police detachments.

Higher operating revenues resulted in an increase of $2.8 million in operating income, reaching $61.9 million for 1997. Other income (expenses) includes investment income of $14.4 million, which was almost entirely offset by the write-down of fixed assets, including asset re-evaluations at the Port of Vancouver, as well as other costs related to the divestiture of Canada Ports Corporation divisional ports.

Interest expense at $27.5 million was $1.3 million higher than 1996, reflecting higher average loans outstanding, mainly at the ports of Vancouver and Belledune. However, repayments and prepayments of loan principal in 1997 resulted in a net reduction of $13.7 million of long-term debt outstanding.

Net income for the year was $34.6 million, an increase of $3.1 million over 1996.

The cash provided by operating activities dropped $9.7 million in 1997. Most of the decline occurred at the Port of Vancouver, due to a combination of higher interest expense, lower investment income and the extra cash outlay to disband the police detachment. The $36.5 million decline in working capital in 1997 was primarily due to Port of Vancouver's decision to transfer short-term investments to a longer term debt retirement fund.

The equity of Canada increased by $30.4 million to $851.5 million during 1997, the net result of net income less dividends paid to Canada.

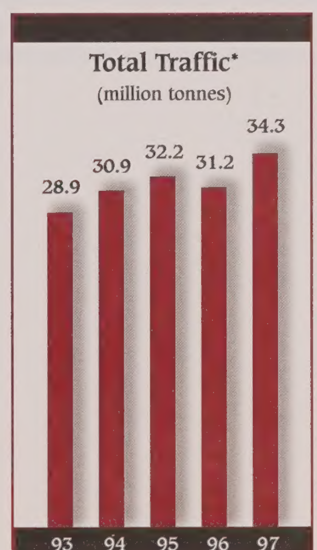
During the year, the Ports Canada system invested $62.2 million in capital assets. The majority of the funds were invested in facility and infrastructure additions and improvements at the ports of Belledune, Halifax, Montréal and Vancouver. The mixed cargo terminal project at the Port of Belledune was financed primarily by loans and grants, while expenditures at other ports were financed largely out of port working capital.

In 1997, Ports Canada paid dividends of $4.1 million, based on 1996 financial results.

	1997	1996*	1995	1994	1993
	(in millions except for average number of employees and ratios)				
Financial results					
Revenue from operations	**$ 244.6**	$ 235.0	$ 229.9	$ 226.5	$ 212.5
Operating expenses	**182.7**	175.9	182.3	178.6	181.1
Operating income	**61.9**	59.1	47.6	47.9	31.4
Other income (expenses) – net	**0.2**	(1.4)	13.2	(16.3)	19.8
Interest expense	**27.5**	26.2	25.2	22.4	22.0
Net income	**34.6**	31.5	35.6	9.2	29.2
Cash provided by operating activities	**92.3**	102.0	86.2	86.9	72.7
Financial position at year end					
Working capital	**$ 126.3**	$ 162.8	$ 132.5	$ 86.0	$ 105.2
Fixed assets – at cost	**1,650.4**	1,636.3	1,546.7	1,485.2	1,430.2
Total assets	**1,415.6**	1,392.8	1,280.1	1,189.5	1,183.4
Long term debt	**374.3**	388.0	350.6	305.3	313.6
Equity of Canada	**851.5**	821.1	746.7	716.7	713.9
Capital expenditures	**$ 62.2**	$ 139.4	$ 68.4	$ 80.1	$ 72.0
Federal capital financing					
Grants	**$ 1.2**	$ 1.5	$ –	$ 0.2	$ 0.5
Payments to Canada					
Dividends	**$ 4.1**	$ 6.2	$ 6.8	$ 6.3	$ 8.6
Cash contributions	**–**	–	–	–	35.0
Employees					
Average number of employees	**921**	959	937	991	1,041
Ratios					
Operating revenue/tonne	**$ 1.18**	$ 1.20	$ 1.17	$ 1.15	$ 1.24
Tonnes/employee	**224,830**	204,751	209,906	199,474	165,004
Cash from operating activities/total assets	**6.5%**	7.3%	6.7%	7.3%	6.1%
Debt : Equity ratio	**44:56**	47:53	47:53	43:57	44:56

* *To conform to the current year's presentation, some of the 1996 financial figures were adjusted.*

Canada Ports Corporation 1997



* excludes Ridley Terminals Inc.

Message from the Chairman of the Board

In April 1997, I was pleased to be asked by the Honourable David Anderson, Minister of Transport at that time, to take on the role of Chair of Canada Ports Corporation (CPC). The specific mandate was to oversee the wind-up of this Corporation as the new *Canada Marine Act* came into law.

Unfortunately, this wind-up and transition phase has taken much longer than earlier expected since Bill C-44 died in the Senate last year and Bill C-9 is once again going through the legislative process.

This Bill, like its predecessor, establishes a comprehensive, uniform, competitive framework for the administration and operation of Canada's major ports. Under this *Act*, Canada Ports Corporation will be dissolved.

Given this context for our work in 1997, the Board considered its mandate to include two primary objectives, both of equal priority. One was to continue to ensure that the Corporation fulfilled its statutory responsibilities in an efficient and responsive manner. The other was to oversee the design and implementation of a wind-up plan which would provide for the orderly and proper dissolution of the Corporation, and the smooth transition of the Ports Canada system to the new regime. This is absolutely essential since the system is a vital part of the marine sector in Canada where the value of marine cargo shipped annually is approximately $65 billion, which translates into more than $2.5 billion a year in revenue and more than 45,000 Canadian jobs.

In 1997, managing these complex tasks in parallel, under lingering uncertainty as to when CPC would be dissolved, proved to be a formidable challenge for the Board and National Office employees. In June, the Board of Directors approved a restructuring and downsizing of the National Office. The intent was not only to reduce operating and administrative expenses, but also to leave in place an essential core group which would manage the National Office until closure. Consequently, National Office expenses were $315,000 less than budgeted which has been reimbursed to all the ports based on the formula for the allocation of National Office expenses.

While coping with considerable change, the Board of Directors and staff were very sensitive to the fact that the Corporation's responsibilities and accountabilities as set out in its legislation remained in place, and consequently, worked hard to ensure that they were properly and adequately discharged. In that light, the Corporation carefully reviewed the ports' corporate plans and capital budgets, encouraging solid commercial practices and discipline throughout the system.

In accordance with the Corporation's statutory obligations I can, on behalf of the Board of Directors, report to the shareholder, the Government of Canada, that the Corporation achieved considerable and measurable results in 1997, in pursuing its objectives through appropriate strategies and that necessary procedures and controls are in place to protect the Corporation's assets as it moves towards dissolution.

Mr. James B. Powers was the Acting Chairman of the Board of Directors of CPC from February 1995 until my appointment in April 1997. On behalf of the Board of Directors, I would like to express our appreciation to Mr. Powers for his dedication, strong leadership and contribution to the Corporation during a very difficult period in its history.

The year 1997 was a particularly demanding one for National Office employees. Marked with continuing uncertainty regarding the timing of wind-up and the need to focus on two very distinct and different objectives: managing the legislative mandate of the Corporation while at the same time preparing for its dissolution, the employees met this challenge head-on and did excellent work. On behalf of the Board of Directors, I would like to acknowledge their dedicated and loyal service, and to express our appreciation for their ongoing contribution to the management of the Corporation.

Personally, may I thank each member of the Board of Directors for their enthusiastic participation and support throughout 1997.

Carole Taylor

Carole Taylor
Chairman of the Board

Message from the President and Chief Executive Officer

In April 1997, I was appointed President and Chief Executive Officer of the Canada Ports Corporation (CPC). My mandate, set out by the Minister of Transport, was to develop and execute in a timely and efficient manner, a comprehensive wind-up plan for the dissolution of the Canada Ports Corporation.

In June 1997, the Board of Directors approved a National Office restructuring and wind-up plan for CPC. The intent of this wind-up plan is to continue to reduce operating and administrative expenses, to prepare for divestiture and or transfer assets and responsibilities and to maximize value to our shareholders at the time of closure of CPC.

Throughout 1997, our employees have responded to a challenging environment of change. Transition periods and the resultant uncertainty are a trying time for staff. I would like to thank the employees for their dedication and support in achieving our objectives. I also acknowledge the support of our shareholder and Transport Canada as well as the advice and guidance of the CPC Board of Directors.

In 1997, CPC continued to ensure that we fulfilled the statutory responsibilities as well as proceeding with elements of the wind-up plan. The year 1997 produced excellent results for the Canada Ports Corporation, and it remains an essential part of the transportation network which is so vital to the Canadian economy and Canada's ability to continue to be competitive in the global marketplace.

All of the Corporation's divisional ports and Ridley Terminals Inc. (RTI) pursue initiatives to broaden and diversify their traffic base, reduce costs and increase operating efficiencies. They continued to play a key role in support of their local and regional economies with total traffic of 41.1 million tonnes, net income of $8.8 million, and capital expenditures of $11.2 million.

Several of the CPC divisional ports were not listed as initial port authorities under Bill C-44 or its successor Bill C-9. The Port of Churchill was transferred in September 1997 to the Hudson Bay Port Company, an affiliate of OmniTRAX Inc. The ports of Prescott and Port Colborne are being prepared for transfer to local community interests. The Port of Belledune's future status has yet to be resolved.

The future of Ridley Terminals Inc. is another important wind-up issue for CPC. RTI and CPC have been working with Transport Canada to resolve terminal agreements, coal throughput rates, refinancing of the long-term debt and finally commercialization options. The Minister of Transport will be the responsible Minister pursuant to the *Financial Administration Act* upon the closure of CPC.

In accordance with CPC statutory obligations, I am pleased to inform the Board of Directors and the Government of Canada that the Corporation achieved its objectives in 1997 and the necessary procedures and controls are in place to ensure the safeguard of the Corporation's assets for wind-up in 1998.

Neil MacNeil
President and Chief Executive Officer

Canada Ports Corporation Traffic Review

At the beginning of 1997, the Canada Ports Corporation (CPC) was made up of eight non-corporate ports, referred to as divisional ports, and its wholly-owned subsidiary, Ridley Terminals Inc.(RTI), a bulk handling terminal. On September 4, 1997 the Port of Churchill, Manitoba, was divested to the Hudson Bay Port Authority, a private-sector company, thereby leaving CPC with seven divisional ports. These divisional ports are located in Belledune, New Brunswick; Sept-Îles, Trois-Rivières and Port Saguenay/Baie des Ha! Ha! in Quebec; and Port Colborne and Prescott in Ontario. RTI, which specializes in handling coal, is located at the Port of Prince Rupert, British Columbia. The divisional ports and RTI play a key role in the economy. Industries are dependent on the facilities these ports provide and are often the primary link to both national and international markets.

Dry bulk traffic handled by the divisional ports include iron ore, aluminum and bauxite, grain and coal. Liquid bulk traffic is made up primarily of petroleum products, while forest products are examples of general cargo. The divisional ports and RTI constitute an integral part of the Ports Canada system.

In 1997, the divisional ports, excluding RTI, handled a total of 34.3 million tonnes, a 10 percent increase from the 31.2 million tonnes reported in 1996. This total represents 18 percent of the 193.1 million tonnes handled by the Ports Canada system in 1997, which has been fairly constant in recent years. Traffic through RTI is reported by the Port of Prince Rupert because the terminal is located within its harbour limits.

At the Port of Belledune, total traffic increased by 50 percent to 2.1 million tonnes in 1997 from 1.4 million tonnes in 1996. Coal traffic increased to 1.2 million tonnes from 0.9 million tonnes in the previous year. Whereas the 1996 level of coal traffic was low due to high inventories in the beginning of the year, the 1997 coal traffic was at the normal level. The increase of concentrate traffic from Noranda also contributed to the increase in dry bulk traffic. Operations at the new Mixed Cargo Terminal started and 172,000 tonnes of gypsum and 5,000 tonnes of pulp and paper was shipped through this new terminal in 1997. The Mixed Cargo Terminal is scheduled to be completed in 1998.

The Port of Churchill was transferred to the Hudson Bay Port Authority, a private sector operator, on September 4, 1997. Before the transfer, the grain receiving facility had been modified to receive aluminum hopper cars, thereby ending the era of box cars in Canadian grain exports. Approximately 188,000 tonnes was shipped through the port in 1997 under CPC management, before the port was transferred on September 4, 1997.

Port Colborne handled 24,000 tonnes of waterborne traffic in 1997, up from zero in 1996. In all, some 207,000 tonnes of grain passed through the Port Colborne grain elevator in 1997, mostly by truck, but also by rail. This was up by about six percent from the 1996 figure of 196,000 tonnes.

At the Port of Prescott, total waterborne traffic in 1997 recorded a 38 percent increase to 594,000 tonnes from 432,000 tonnes in 1996. Grain traffic recovered from a record low of 120,000 tonnes in 1996 to 161,000 in 1997. Aggregate traffic increased from 154,000 tonnes to 196,000 tonnes and salt traffic grew from 158,000 tonnes in 1996 to 218,000 tonnes in 1997.

Traffic at the Port of Saguenay registered an eight percent increase to 320,000 tonnes in 1997 from 297,000 tonnes in 1996, mainly because of a return to normal quantities of salt traffic. The neighbouring private port facilities at Baie de Ha! Ha! experienced a 10 percent increase in traffic to 4.2 million tonnes from 3.8 million tonnes in 1996. This was mainly due to an increase in bauxite and alumina import, but forest products traffic also increased by almost 70 percent to 193,000 tonnes in 1997 from 114,000 tonnes in 1996.

The Port of Sept-Îles, which accounts for about three-quarters of the total divisional port traffic, experienced an eight percent growth to 24.5 million tonnes from 22.1 million tonnes in 1996. Ninety percent of this traffic is iron ore, which in 1997 increased to 22.1 million tonnes from 20.2 million tonnes in 1996. No coal transshipments took place in 1997, but 300,000 tonnes of ilmenite was handled.

The Port of Trois-Rivières recorded traffic levels that increased by four percent to 2.4 million tonnes in 1997 from 2.3 million tonnes in 1996. General cargo, in particular, saw an increase of 88 percent from 126,000 tonnes in 1996 to 237,000 tonnes in 1997, close to 90 percent of which consisted of pulp and paper. Traffic levels of grain and liquid bulk both saw an increase of 10 percent. The only product category that experienced a reduction in traffic levels was dry bulk, other than grain, which fell by 13 percent in 1997 to 865,000 tonnes from 993,000 tonnes in 1996.

Total shipments through Ridley Terminals Inc. recorded an increase of 30 percent to 6.9 million tonnes in 1997 from just under 5.3 million tonnes in 1996. The increase in tonnage is mainly due to unbudgeted receipts of coal from three Luscar mines; Manalta's Gregg River mine, all of which are located in northern Alberta; and petroleum coke received from Husky and Suncor.

Canada Ports Corporation Financial Overview

The financial overview of the Canada Ports Corporation (CPC) includes the financial results of the wholly owned subsidiary Ridley Terminals Inc. (RTI), and partial year results for the Port of Churchill, which was divested in 1997.

Port financial performance depends to a large extent on the volume and mix of cargo handled. An overall traffic increase over 1996 provided for improved operating revenues and income from operations for 1997.

Principal Operations

The principal operations of CPC are defined by the activities of the divisional ports and RTI.

Revenue from Operations

Revenue from operations of $59.6 million in 1997 represented a one percent increase over 1996. RTI, which generated 62 percent of CPC's operating revenues in 1997, accounted for most of the increase in revenues as a result of higher coal throughput. These increases were partially offset by lower revenues at the Port of Churchill, which earned revenues for CPC only up until the divestiture date of September 4, 1997.

Operating Expenses

Operating expenses at $32 million were lower by $0.9 million or 2.7 percent in comparison to 1996, primarily because of the partial year of operations at the Port of Churchill. These savings were partly offset by environmental costs for the disposal of contaminated soil at the Port of Trois-Rivières.

Income from Operations

Income from operations of $27.6 million in 1997 was up by $1.4 million, an increase of 5.3 percent over 1996. RTI's income from operations of $20.2 represented 73 percent of the total. The other major contributors were the ports of Belledune and Sept-Îles, with income from operations of $3.8 million and $3.4 million, respectively.

Investment Income

Despite higher investment bases at most ports over the year, investment income of $3.7 million in 1997 was slightly lower compared to 1996, due to lower short term investment yields during the year.

Interest Expense

Interest expense of $17.4 million in 1997 decreased slightly from the previous year mainly because of debt repayment at RTI. This was partially offset by additional borrowings and interest expense at the Port of Belledune to finance the construction of the new Mixed Cargo Terminal project.

Write-Down of Capital Assets

The Port of Prescott recorded a write-down of $3.1 million in the net value of its capital assets in recognition of the expected net realizable value upon divestiture, which is expected to be completed in 1998.

Divestiture Costs

On September 4, 1997, the Corporation transferred the operations of the Port of Churchill for nominal consideration. The port incurred divestiture costs of $1.3 million which represents mainly employee transfer costs. A further $0.2 million was incurred for the future divestitures of Port Colborne and the Port of Prescott in 1998.

Parliamentary Appropriation

For the past two years, the Government of Canada has assisted in defraying the Port of Churchill's operating deficit. In 1997, the unused portion of $1 million of the 1996 operating grant, previously recorded as a revenue, was reimbursed to the Government of Canada. In 1997, the port received an operating grant of $0.4 million for the 1997 operations. The Parliamentary appropriation refund in the amount of $0.5 million is the result of the reimbursement of the 1996 unused portion of the operating grant less the 1997 grant.

Net Income

Net income at $8.8 million was down by $4.4 million when compared with 1996. The decrease is mainly attributable to the write-down of capital assets at the Port of Prescott, the divestiture costs, as well as the reimbursement of the 1996 operating grant at the Port of Churchill. Excluding these unusual items, net income was up by $1.3 million when compared to 1996. As explained above, the increase is mainly due to higher revenues at RTI, partially offset by the costs for disposal of contaminated soil at the Port of Trois-Rivières.

Dividend to Canada

In 1997, the Corporation paid a dividend of $377,000, compared to $316,000 paid in 1996.

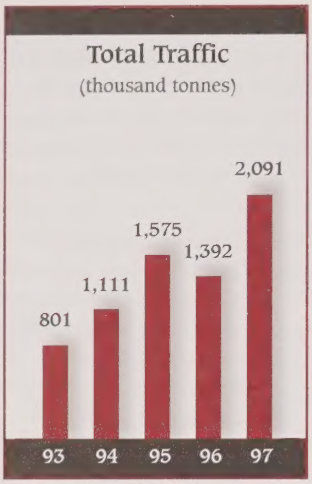
Interport Loan Fund

The Fund was established by Canada in 1989 to provide funding for financially viable capital projects for all ports in the Ports Canada system. During 1997, the Fund advanced $5.5 million to the Port of Belledune for its Mixed Cargo Terminal project.

Capital Investments

In 1997, the Corporation invested a net $11.2 million in the construction of new facilities and for improvement of existing ones. The major expenditures were $7.5 million spent at the Port of Belledune for the Mixed Cargo Terminal project and $1.9 million spent at the Port of Sept-Îles for various capital projects. Capital investments at the Port of Sept-Îles were financed by internally generated funds. As for the Port of Belledune, it was financed by a combination of borrowings from the Interport Loan Fund, a provincial loan and provincial capital grants.

Port of Belledune



The Port of Belledune is situated on the south-shore of the Baie des Chaleurs, in northeastern New Brunswick. A deep water port open to shipping year-round, the port traditionally has handled liquid and dry bulk cargo at its two wharves. In 1996, operations began at the new Mixed Cargo Terminal which is scheduled for completion in 1998.

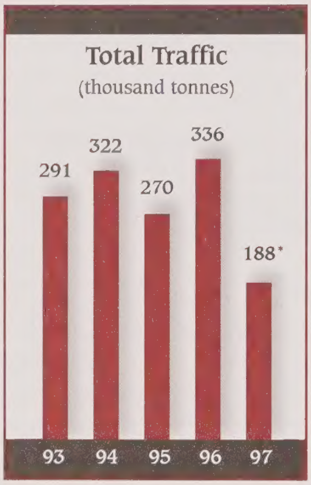
The port experienced a substantial traffic increase in 1997 due to additional concentrate traffic from Noranda Mining and Exploration and the handling of synthetic gypsum at the new Mixed Cargo Terminal. These factors contributed to a 50 percent increase in total tonnage in 1997 to 2.1 million tonnes from 1.4 million tonnes, a new record for the port.

During the year, the port handled 1.8 million tonnes of dry bulk cargo, an increase of 38 percent from 1.3 million tonnes handled in 1996. Liquid bulk traffic also increased in 1997 to 233,000 tonnes from 134,000 tonnes handled the previous year.

The Port of Belledune recorded another strong year with operating revenues of $5.8 million, an increase of 13 percent over the 1996 total of $5.1 million. Operating expenses increased 27 percent to reach $1.9 million from $1.5 million in 1996.

Net income totalled $835,000 in 1997, down slightly from the 1996 total of $897,000.

Port of Churchill



*CPC traffic until September 4, 1997

The Port of Churchill, located on the western shore of Hudson Bay, continued its primary role of exporting western Canadian grain as well as its important function of re-supplying the northern communities in the Keewatin region of the Northwest Territories.

Operations under the Canada Ports Corporation ended September 4, 1997, when the Hudson Bay Port Company took possession of the major facilities and a waterlot at the port. On September 5, 1997, all remaining property and subsisting obligations including administration, management and control of the harbour were passed to Transport Canada.

Seven grain ships visited the port between July 29 and September 3, 1997, departing with 170,000 tonnes of wheat destined for Brazil, Mexico, Africa and the United States. Grain exports accounted for 90 percent of total port traffic. Northern re-supply operations totalled 17,700 tonnes consisting primarily of petroleum products, building materials, vehicles, equipment and other essential supplies.

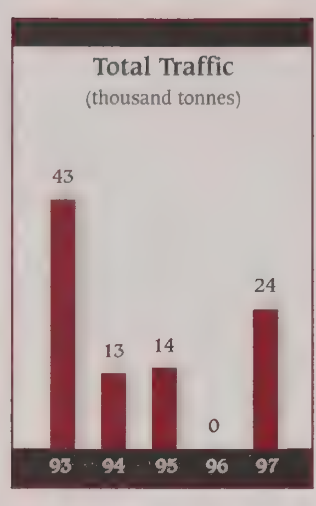
Tourism once again played a role at the Port of Churchill. One cruise vessel carrying a total of 80 passengers called at the port in August.

The Port of Churchill appears to be in a strong position to benefit from its strategic location as Canada's northern-most grain export port.

Transportation of grain to Churchill in 1997 saw the full conversion from the use of outdated box cars to aluminum hopper rail cars. This resulted in access to greater volumes of grain from the Churchill drawing area and more efficient receiving operations at the port. Hudson Bay Port Company, a subsidiary of OmniTRAX, a private rail operator which took over the railway serving the port, proposes to operate the port and the rail line as an integrated operation. This will help create operating synergies for the future success of the port.

The financial situation at the port reflects the effect of ending operations during the middle of the navigation season and cannot be compared with previous years. The port reported operating revenues of $2.4 million for 1997. Operating expenses stood at $2.8 million leaving an operating loss of $419,000. After allowing for interest expenses, the amount funded by an appropriation from Transport Canada was $469,000. The net loss for the year of $2.2 million included divestiture costs of $1.3 million, mostly made up of employee severance costs and partly funded by way of a transfer from Port Colborne.

Port Colborne

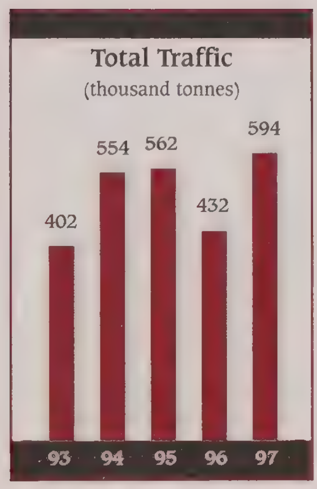


Located at the southern entrance to the Welland Canal on Lake Erie, Port Colborne specializes in the handling of domestic grain. In 1986, the Canada Ports Corporation leased the grain elevator to Goderich Elevators Limited under the terms of a twenty-year agreement. In an effort to diversify operations, a portion of the port's waterlot was leased to the City of Port Colborne to operate the Sugarloaf Harbour Marina. The marina serves transient and seasonal craft and includes repair facilities, as well as a restaurant.

Waterborne traffic represents only a small percentage of total tonnage, while rail and truck movements account for the bulk of the handlings. In 1997, 24,000 tonnes of waterborne traffic were handled by two vessels at the port, compared with no waterborne traffic in 1996. A total of 146,000 tonnes of grain was moved by truck and 37,000 tonnes by rail for a total of 207,000 tonnes of traffic in 1997. This was up slightly from 196,000 tonnes handled by the same modes of transportation in 1996.

Operating revenues totalled $129,000 during the year, compared to $147,000 in the previous year. Operating expenses also decreased from $141,000 in 1996 to $81,000 in 1997. This resulted in a year end operating profit of $47,000 compared to $7,000 in 1996. Investment income of $368,000 offset by divestiture costs of $83,000 provided the port with a net income of $332,000 in 1997, down from $405,000 in the previous year.

Port of Prescott



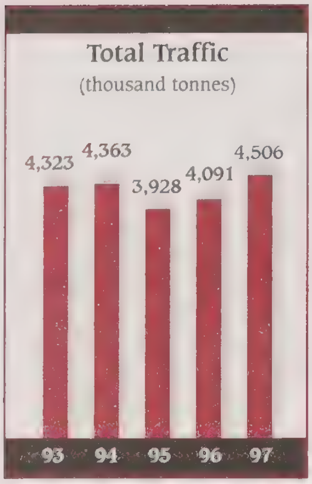
The Port of Prescott is located on the St. Lawrence River, 100 kilometers south of Ottawa and 200 kilometers west of Montréal. With its harbour at seaway depth, the port is the only major marine grain elevator for public use in eastern Ontario. It is well served by major highways, including Highway 401 and national railways, which provide the port with good access to Toronto, Montréal and the state of New York.

While the primary commodity handled is grain, the port has diversified to other bulk commodities, such as aggregate, slag and salt. It also leases land for other port and non-port activities including a marina, feed mill and cottage lots. The port operates year-round, although vessel traffic stops from late December to early March.

The Port of Prescott had 27 vessels calls during the year and handled 594,000 tonnes of cargo, up 38 percent from the 1996 total of 432,000 tonnes. In 1997, salt tonnage increased 60,000 tonnes to 218,000 tonnes, waterborne grain traffic was up from 120,000 tonnes in 1996 to 161,000 tonnes, and aggregate traffic jumped to 196,000 tonnes from 154,000 tonnes. In addition, 19,000 tonnes of slag was handled for the first time during the year.

While overall vessel tonnage was up, grain elevator activity was down. The decrease in grain storage, cleaning and drying revenues resulted in overall operating revenues dropping to $2.8 million during the year from $3.1 million in the previous year. Operating expenses also dropped from $3.3 million in 1996 to $3.1 million in 1997, resulting in an operating loss of $261,000 for the year. Investment income of $1.2 million partly offset a charge of $3.3 million for the write down of fixed assets and divestiture costs. This resulted in a net loss of $2.3 million in 1997, compared to net income of $1.1 million in 1996.

Port Saguenay and Baie des Ha! Ha!



Port Saguenay and Baie des Ha! Ha! are located on the Saguenay River, approximately 54 nautical miles north of its junction with the St. Lawrence River. The two ports play a key role in the local economy and provide vital services in the region's resource-based industries of pulp and paper, lumber and aluminum production.

Total traffic handled at Port Saguenay in 1997 was up by eight percent to 320,000 tonnes from 297,000 tonnes in 1996. This improvement was due to increased salt traffic at the port.

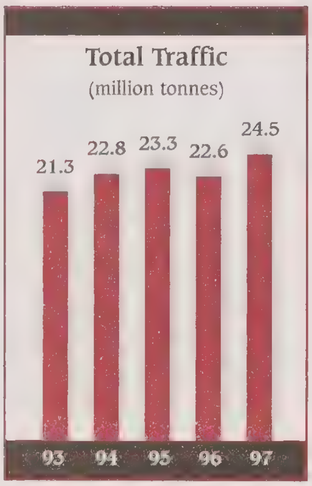
Alcan Aluminum Limited owns and operates the private wharf facilities at Baie des Ha! Ha! which handles raw materials for the company's own use. In 1997, total traffic increased 10 percent to 4.2 million tonnes from 3.8 million tonnes in 1996.

Total traffic at Port Saguenay and Baie des Ha! Ha! increased by 10 percent in 1997 to reach 4.5 million tonnes from 4.1 million tonnes in 1996.

Operating revenues for Port Saguenay totalled $1 million, unchanged from the previous year. Operating expenses decreased in 1997 to $770,000 from $850,000 in 1996. The port reported operating income of $285,000 during the year compared to $169,000 in the previous year. Investment income of $457,000 and its operating income enabled the port to post a net profit of $742,000, up from $659,000 in 1996. In 1997, capital expenditures totalled $460,000 compared with $29,000 in the previous year.

At Baie des Ha! Ha!, total operating revenues increased to $205,000 from $162,000 in 1996. Operating expenses were unchanged at $90,000 leading to a net operating income in 1997 of $115,000. Net profit for the year reached $160,000 compared to a net profit of $126,000 in 1996.

Port of Sept-Îles



The Port of Sept-Îles is a deep water port located on the north shore of the Gulf of St. Lawrence, 650 kilometers east of Québec City. The port consists of a large natural basin with a water depth of more than 80 meters, open to year-round navigation. It is the largest iron-ore port in Canada and serves the mining industry of Quebec and Labrador.

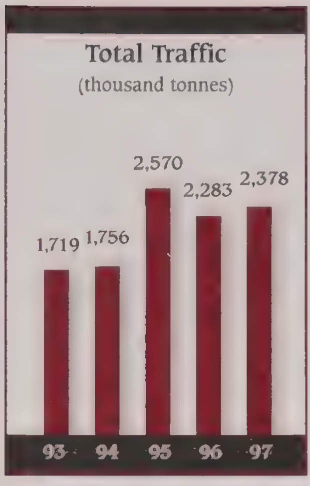
Total port traffic in 1997 was 24.5 million tonnes, up eight percent from 22.6 million tonnes handled in 1996. Iron ore totalled 22.1 million tonnes, up significantly from 20.2 million tonnes handled in the previous year. Although it accounts for almost 90 percent of total traffic, iron ore represents only approximately 10 percent of total revenues.

In 1997, 1.7 million tonnes of cargo was handled at the port's facilities, down from 1.8 million tonnes in 1996. During the year, the port transhipped 300,000 tonnes of ilmenite, down from 414,000 tonnes of coal and coke breeze in 1996.

Continuing efforts have been made to increase the port's traffic level and diversify Pointe-Noire's traffic base, particularly with the development of the new rail-car ferry service.

Financial results for the year show operating revenues of $7.4 million, up from $7.3 million in 1996. Operating expenses for 1997 were $4.0 million, down $400,000 from the previous year. This resulted in an increase in operating income from $2.9 million in 1996 to $3.4 million in 1997. The cost of financing the port debt during the year was $2.8 million. This was partially offset by investment income of $344,000 resulting in the port recording a net income of $991,000, up from $717,000 in 1996.

Port of Trois-Rivières



Strategically located halfway between Montréal and Québec City, on the north shore of the St. Lawrence River, the Port of Trois-Rivières offers an extensive range of facilities and services to the shipping industry. The port has traditionally handled forest products, grain exports, alumina transshipments and other liquid and dry bulk products.

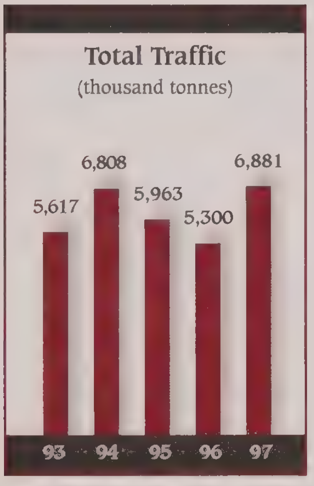
In 1997, the port handled a total of 2.4 million tonnes, up four percent from 2.3 million tonnes handled in 1996. General cargo recorded an increase of 88 percent to reach 237,000 tonnes with pulp and paper accounting for almost 90 percent of this total.

Grain handlings were also strong during the year reaching 880,000 tonnes, a 10 percent increase over 1996. Liquid bulk was also up 10 percent over 1996 to reach 395,000 tonnes, compared with 359,000 tonnes in 1996. Excluding grain traffic, dry bulk was down 13 percent to 865,000 tonnes from 993,000 tonnes handled in 1996.

During the year, the Port of Trois-Rivières spent close to $1 million to rebuild Wharf No. 6 located in downtown Trois-Rivières. As well, the port disposed of approximately 120,000 tonnes of contaminated soil at a cost of $750,000.

Operating revenues were $3.4 million, up five percent from 1996. Operating expenses were also higher, at $2.7 million, compared to $2.2 million in 1996. Operating income was $694,000 in 1997 which, combined with investment income of $822,000, produced net income of $1.5 million.

Ridley Terminals Inc.



Ridley Terminals Inc. (RTI) is located on a 55-hectare site on the northern end of Ridley Island, at Prince Rupert, B.C. The terminal is a sophisticated bulk-handling facility used for moving coal from unit trains onto ships. Deep-water bulk carriers have year-round ice-freeze access to a large natural harbour that is sheltered by a ring of outer islands.

The terminal has a capacity to ship approximately 16 million tonnes of coal a year. Access to the facility, from the main CN North America rail line, is accomplished by means of a three-track 2,200 meter causeway.

In 1997, 6.9 million tonnes of cargo moved through the terminal, up from 5.3 million tonnes in 1996. Coal shipments through RTI increased by 27 percent in 1997 and petroleum coke shipments increased to 309,000 tonnes from 137,000 tonnes in 1996.

Operating revenues for the year were $36.7 million compared to $34.5 million in 1996. Operating expenses totalled $16.5 million in 1997, up slightly from $16.3 million in the previous year. Interest expense on the debt for the construction of the terminal amounted to $11.5 million in 1997 and $11.9 million in 1996. RTI repaid $6.5 million of debt in 1997, down from $8.0 million in 1996. Net income for the year was $8.8 million, up from $6.4 million in 1996.

Auditors' Report

To the Honourable David Collenette, P.C., M.P.
Minister of Transport

We have audited the consolidated balance sheet of Canada Ports Corporation as at December 31, 1997 and the consolidated statements of income and deficit and changes in financial position for the year then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Ports Corporation Act* and the by-laws of the Corporation.

The accounts for the year ended December 31, 1996, shown for comparative purposes, were reported on by other auditors.

Raymond Chabot Martin Paré

Chartered Accountants
Ottawa, Ontario
February 24, 1998

Consolidated Balance Sheet

As at December 31, 1997

	1997	1996
	(in thousands of dollars)	
Assets		
Current		
Cash	$ 2,768	$ 988
Short-term investments (Note 4)	53,839	40,498
Accounts receivable	8,855	10,280
Materials and supplies	2,631	2,878
	68,093	54,644
Investments (Note 4)	16,964	16,900
Capital assets (Note 5)	109,828	108,077
	194,885	179,621
Interport Loan Fund (Note 10)	93,064	91,979
	$ 287,949	$ 271,600
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 6)	$ 28,739	$ 20,048
Due to Interport Loan Fund (Note 7)	2,387	2,030
	31,126	22,078
Accrued employee benefits	295	2,080
Due to Interport Loan Fund (Note 7)	66,712	63,599
Long-term debt (Note 8)	168,260	171,780
	266,393	259,537
Contingencies (Notes 14 (c), 15 and 16)		
Deficiency of Canada		
Contributed capital (Note 3)	64,923	111,672
Deficit (Notes 3 and 9)	(136,431)	(191,588)
	(71,508)	(79,916)
	194,885	179,621
Interport Loan Fund (Note 10)	93,064	91,979
	$ 287,949	$ 271,600

The accompanying notes are an integral part of these consolidated financial statements.
On behalf of the Board:

Carole Taylor

Carole Taylor
Chair

Mervyn C. Russell
Director

Canada Ports Corporation

Consolidated Statement of Income and Deficit

For the year ended December 31, 1997	1997	1996
	(in thousands of dollars)	
Revenue from operations	$ 59,620	$ 59,026
Operating and administrative expenses	25,146	25,736
Depreciation	4,447	4,580
Municipal grants and taxes	2,393	2,542
	31,986	32,858
Income from operations	27,634	26,168
Investment income	3,653	3,969
Interest expense	(17,353)	(17,532)
Income before the undernoted items	13,934	12,605
Write-down of capital assets (Note 16)	(3,136)	–
Divestiture costs (Note 3)	(1,514)	(404)
Parliamentary appropriation (Note 3)	(499)	1,000
Net income for the year	8,785	13,201
Deficit at beginning of the year	(191,588)	(204,473)
Dividend to Canada (Note 10)	(377)	(316)
Elimination of deficit upon port divestiture (Note 3)	46,749	–
Deficit at end of the year	$ (136,431)	$ (191,588)

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Financial Position

For the year ended December 31, 1997	1997	1996
	(in thousands of dollars)	
Operating Activities		
Net income for the year	$ 8,785	$ 13,201
Items not affecting cash		
Depreciation	4,447	4,580
Write-down of capital assets	3,136	–
Other	(1,539)	(87)
Net change in non-cash components of working capital	10,582	3,221
Cash provided by operating activities	25,411	20,915
Financing Activities		
Capital grants	1,560	2,500
Changes in amount Due to Canada	785	1,921
Transfers from Interport Loan Fund	5,500	5,900
Repayment of transfers from Interport Loan Fund	(2,030)	(1,722)
Issuance of long-term debt	8,067	9,000
Repayment of long-term debt	(11,583)	(17,077)
Dividend to Canada	(377)	(316)
Cash provided by financing activities	1,922	206
Investing Activities		
Additions to capital assets	(11,204)	(11,934)
Change in construction payables	(1,008)	90
Cash required by investing activities	(12,212)	(11,844)
Increase in cash and short-term investments	15,121	9,277
Cash and short-term investments at beginning of the year	41,486	32,209
Cash and short-term investments at end of the year	$ 56,607	$ 41,486

The accompanying notes are an integral part of these consolidated financial statements.

1. *Canada Ports Corporation Act*

Canada Ports Corporation (the Corporation) was established under the *Canada Ports Corporation Act* (the Act), to administer, manage and control Canadian harbours, and any other harbour, work or property of Canada transferred by the Governor in Council. The Corporation is named in Part II of Schedule III of the *Financial Administration Act* and is exempt from income tax.

The Corporation has direct responsibility for operating eight divisional ports and has a wholly-owned subsidiary, Ridley Terminals Inc. (RTI), a coal terminal facility at Prince Rupert. During 1997, the Corporation divested one of its divisional ports and the Governor in Council terminated its administration, management and control over that port (see note 3). The Act provides for the establishment of local port corporations to manage and operate additional selected ports. The Act also charges the Corporation with certain responsibilities respecting these ports, particularly concerning capital projects. In addition, the Corporation administers the Interport Loan Fund on behalf of itself and the local port corporations.

On December 9, 1997 Bill C-9, *Canada Marine Act*, received third reading in the House of Commons. This proposed Act , when proclaimed, repeals the *Canada Ports Corporation Act* and dissolves the Corporation whose assets and obligations are to devolve to the Crown under the administration of the Minister of Transport (see note 16).

2. **Significant accounting policies**

(a) Financial statements

The financial statements of the Corporation include the accounts of the divisional ports under its administration and of RTI. The activities of the local port corporations are excluded from the financial statements from the date of their establishment. As the earnings of the Interport Loan Fund do not automatically accrue to the Corporation, the assets, liabilities, revenues and expenses of the Fund are not consolidated (see note 10).

(b) Investments

The short-term investments are carried at the lower of amortized cost, whereby premiums or discounts from par value are amortized over the periods to maturity, or market. Long-term investments are carried at the lower of amortized cost or market if a permanent decline in value exists.

(c) Materials and supplies

Materials and supplies consist of supplies, consumables and repair parts. They are valued at the lower of average cost and replacement cost.

(d) Capital assets

Capital assets are recorded at cost, with the exception of those transferred to the Corporation from Canada. The assets transferred from Canada are recorded at appraised or fair market value established at the time of transfer. Government grants received towards capital projects are deducted from the cost of the related capital assets.

Depreciation of capital assets is calculated on the straight-line basis commencing with the year the asset becomes operational, using rates based on the estimated remaining useful life of the assets.

(e) Pension plans

Employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Under present legislation, contributions made by the Corporation to the Plan are limited to an amount equal to the employee's contributions on account of current service. These contributions represent the total pension obligations of the Corporation and are charged to operations on a current basis. The Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account. Employees of RTI are covered separately by a contributory defined-benefit plan.

(f) Municipal grants and taxes

The expense for municipal grants and taxes is based on estimated municipal assessments, adjusted in accordance with the *Municipal Grants Act* where applicable. Municipal grants are finalized after the amounts have been audited by the Municipal Grants Division of Public Works and Government Services Canada. Any adjustments upon finalization of the grants are reflected in the accounts in the year of settlement.

(g) Employee benefits

The Corporation accrues in its accounts the estimated liabilities for severance pay, annual leave and overtime compensatory leave, which are payable to its employees under its collective agreements, or in accordance with its policy.

(h) Revenue recognition

Revenue is recognized as the related services are provided. RTI's coal throughput revenue is recorded at 50 percent of the contracted throughput rate at the time the coal is received at the terminal, with the balance being recorded at the time of ship loading. RTI's throughput agreements with its two main customers are in place until March 31, 1998 and March 31, 1999. The agreements in place provide for guaranteed delivery of an annual minimum tonnage to the terminal and under the terms of one of the agreements, shortfall payments may be required on a quarterly basis subject to a final adjustment at the end of the coal year (April 1 to March 31). Revenues resulting from any estimated shortfall in tonnage are recognized in the current year. Any difference between estimated shortfall revenue and required payments is recorded as an account receivable or an accrued liability.

3. **Divestiture of port**

On September 4, 1997, the Corporation transferred the operations of the Port of Churchill for nominal consideration. Revenues for operations applicable to the port amounted to $2,354,000 (1996 – $4,593,000) with an operating loss of $174,000 (1996 – operating income of $307,000). In addition, the Port of Churchill incurred divestiture costs of $1,278,000 (1996 – $0).

For the past two years, the Government of Canada has assisted in defraying the Port of Churchill's operating deficit. In 1997, the unused portion of $968,000 of the 1996 operating grant, previously recorded as a revenue, was reimbursed to the Government of Canada. In 1997, the port received an operating grant of $469,000 for the 1997 operations. The parliamentary appropriation refund in the amount of $499,000, recorded in the financial statements, is the result of the reimbursement of the 1996 unused portion of the operating grant less the 1997 grant.

The Corporation's contributed capital and deficit with respect to the divested port, each in the amount of $46,749,000, have been transferred to the Government of Canada.

4. **Investments**

Short-term investments consist of $46,178,000 (1996 – $39,999,000) of Canada treasury bills and $7,661,000 (1996 – $499,000) of other market securities. Interest rates on these investments vary from 2.91 percent to 5.02 percent . As at December 31, 1997 and 1996, the market value of the short-term investments approximates their amortized cost.

Long-term investments of $16,964,000 (1996 – $16,900,000) are Canada bonds with interest rates varying from 5.3 percent to 5.4 percent and maturing between May 1, 2001 and December 15, 2002. As at December 31, 1997, their market value is $20,900,000 (1996 – $21,469,000).

5. **Capital assets**
(a) Summary

		1997			1996
		(in thousands of dollars)			
	Depreciation rates %	Cost or appraised value	Accumulated depreciation and write-downs	Net	Net
Land	–	$ 7,306	$ –	$ 7,306	$ 7,363
Dredging	2.5-6.7	7,596	1,770	5,826	6,000
Berthing structures	2.5-10	46,323	23,126	23,197	24,367
Buildings	2.5-10	29,956	11,122	18,834	18,891
Coal terminal facility	4-33	22,651	5,401	17,250	18,099
Utilities	3.3-10	7,722	2,763	4,959	5,039
Roads and surfaces	2.5-10	6,159	4,607	1,552	2,133
Machinery and equipment	5-100	22,427	14,469	7,958	8,463
Office furniture and equipment	20-33	3,846	3,674	172	156
Works under construction	–	22,774	–	22,774	17,566
		$176,760	$ 66,932	$109,828	$108,077

(b) Capital grants
In 1997, the Corporation received capital grants towards the construction of capital assets totalling $1,560,000 (1996 – $2,500,000) of which $246,000 (1996 – $1,500,000) was from the Government of Canada.

6. **Accounts payable and accrued liabilities**
Included in accounts payable and accrued liabilities are deferred revenues of $476,000 (1996 – $665,000), a payable to Government of Canada of $785,000 (1996 – $0) and the current portion of long-term debt of $87,000 (1996 – $83,000).

Also included in accounts payable and accrued liabilities are an amount of $7,184,000 (1996 – $538,000) for future lease termination costs (see note 14(c)) and other potential dissolution costs which are not determinable at this time (see note 16) and a provision for employee termination costs upon dissolution of the Corporation of $5,960,000 (1996 – $6,575,000). The Corporation's share of these latter costs is nil in 1997 (1996 – $404,000). The balance has been funded by transfers from the Interport Loan Fund and charges to the local port corporations.

7. **Due to Interport Loan Fund**
The Interport Loan Fund (see note 10) has provided long-term financing for the coal terminal and the mixed cargo terminal projects at the Port of Belledune and the Alouette project at the Port of Sept-Îles as follows:

	1997	1996
	(in thousands of dollars)	
(a) Transfers to the Port of Belledune bearing interest at 6.05% to 11.47%, repayable in blended annual installments of principal and interest of $4,495,000 and maturing between December 31, 2012 and 2015.	$ 38,924	$ 34,374
(b) Transfers to the Port of Sept-Îles bearing interest at 7.91% to 9.20%, repayable in blended annual installments of principal and interest of $3,836,000 and maturing December 31, 2011.	30,175	31,255
	69,099	65,629
Less: Current portion	(2,387)	(2,030)
	$ 66,712	$ 63,599

Principal repayment requirements over the next five years amount to $2,387,000 in 1998, $2,592,000 in 1999, $2,815,000 in 2000, $3,059,000 in 2001 and $3,323,000 in 2002.

8. **Long-term debt**

	1997	1996
	(in thousands of dollars)	
(a) Loan from Canada, bearing interest at 6.44%, repayable in twenty blended annual installments of principal and interest of $106,000 and maturing on December 31, 2000.	$ 280	$ 363
(b) Loan from Province of New Brunswick, interest free, repayment based on 25% of Port of Belledune's net income for the first 8 years and on 75% of it for remainder of the term; loan to be fully repaid within 10 years following final disbursement by the Province.	3,067	–
(c) RTI note, repayable on August 12, 1998, and bearing interest at 6.93% payable annually.	165,000	165,000
(d) RTI note, under a revolving credit facility, repayable by August 12, 1998, and bearing interest at Canadian inter-bank bankers' acceptance rate plus 0.20% payable at maturity of note.	–	6,500
	168,347	171,863
Less: Current portion	(87)	(83)
	$168,260	$171,780

Principal repayment requirements over the next five years amount to $87,000 in 1998, $93,000 in 1999, $100,000 in 2000, $0 in 2001 and $67,000 in 2002.

The loan from the Province of New Brunswick provides partial financing to the Port of Belledune for the mixed cargo terminal project. Under the financing agreement with the Province, a total amount of $3,850,000 is to be loaned, interest free. While the repayments are to be based on the Port of Belledune's net income, they are not to start until the full amount has been borrowed by the Port. Consequently, there is no repayment requirement for 1998. Due to the terms and conditions of this loan, only estimates could be included in the principal repayment requirements presented above.

The debt of RTI which is with Export Development Corporation (EDC) consists of notes. Under the financing arrangement with EDC, the fixed rate note is repayable in 1998, while notes issued under the revolving credit facility, at variable rates, are repayable by August 12, 1998.

Although the fixed rate note will mature during the following year, it is presented on a long-term basis because the original intention was the refinancing of RTI terminal facilities and it is RTI's management intention to renegotiate long-term financing.

The revolving credit facility provides for notes to be issued up to an aggregate maximum of $41 million. These notes may be for a term of one to twelve months and may roll over on the maturity date with new face values and interest rates, with final repayment of all amounts under the credit facility due on August 12, 1998.

The financing with EDC is guaranteed unconditionally by the Government of Canada to a maximum of $230 million and is secured by a $250 million collateral demand debenture over all present and future assets of RTI.

9. **Deficit**
At the incorporation of RTI in 1981, 50 percent of RTI was owned by the Corporation while the remaining 50 percent was owned by an unrelated party. The shareholders' agreement of RTI provided a condition for the unrelated party to sell its shares to the Corporation in 1991. On July 30, 1991, the Corporation purchased the remaining 50 percent ownership in RTI and RTI became a wholly-owned subsidiary of the Corporation. The share purchase of $58.5 million was paid in cash and was fully financed by Canada. The excess of the purchase price, over the assets acquired of $31.7 million less the liabilities assumed of $229.1 million, resulted in a loss on acquisition of RTI of $255.9 million.

10. **Interport Loan Fund**
In 1988, authority was granted by Canada to the Corporation to establish an Interport Loan Fund (the Fund). This Fund is administered by the Corporation and was established to provide financing for financially viable capital projects of the Corporation and local port corporations. Financing is provided by way of transfers to divisional ports managed by the Corporation and by way of loans to local port corporations. Transfers and loans bear interest at the Crown corporation lending rate, the rate in effect from time to time between Canada and Crown corporations. Until December 31, 1994, earnings of the Fund were, pursuant to the terms and conditions under which the Fund was established, restricted to the uses for which the Fund was established. During 1995, the terms and conditions were amended to provide that the remaining earnings of the Fund of a year, after providing for the dividend to Canada, be transferred to the Corporation to be applied against the administrative office costs for the year.

The balance sheet of the Fund as at December 31 shows:

	1997	1996
	(thousands of dollars)	
Assets		
Current		
Cash and investments	$26,038	$28,319
Transfers receivable (note 7)	2,387	2,030
	28,425	30,349
Transfers receivable (note 7)	66,712	63,599
Allowance for doubtful accounts	(2,073)	(1,969)
	$93,064	$91,979
Liability		
Current		
Due to the Corporation	$ 3,491	$ 2,328
Fund Balance		
Contributed capital	70,332	70,332
Retained earnings	19,241	19,319
	89,573	89,651
	$93,064	$91,979

The investments of the Fund, shown at amortized cost, are direct and guaranteed securities of Canada. The interest rates vary from 2.91 percent to 5.02 percent. As at December 31, 1997 and 1996, the market value of the investments approximates their amortized cost.

In 1997, the Government of Canada approved that the 1996 forgiveness of the Port of Québec Corporation's debt of $6.3 million be applied against the Crown's investment in the Fund. Accordingly, the debt forgiveness was recorded as a reduction in the Fund's contributed capital in 1996.

In 1997, the Fund advanced $5.5 million (1996 – $5.9 million) to the Port of Belledune for a capital project.

The Fund is committed to provide financing of $2.2 million in 1998 for a capital project at the Port of Belledune.

In accordance with the terms and conditions under which the Fund was established, the Corporation is required to pay to Canada a dividend from the Fund every year. However, during 1997, an overpayment of dividends to Canada from the Fund amounting to $4,561,000 for the period from 1991 up to and including 1995 was identified. As a consequence, dividends reported for 1996 and prior years were overstated. Accordingly, the dividend for 1996, which would have been payable on March 31, 1997, was recalculated as $3,114,000 and applied as an offset against the overpayment. Dividends in the amount of $377,000 payable to Canada for the year 1996 in respect of assessable income of the divisional ports were applied as a further set-off against the overpayment. As at December 31, 1997, the net outstanding amount of the overpayment refundable to the Fund from Canada is $1,070,000. It will be applied against the 1997 dividend of $2,832,000. Consequently, the portion of the 1997 dividend, payable in 1998, of $1,762,000 will be applied against the retained earnings as dividends are recorded on a cash basis.

The statement of income and retained earnings of the Fund is as follows:

	1997	1996
	(in thousands of dollars)	
Interest income	**$ 6,736**	$ 7,135
Operating and administrative expenses	**211**	56
Net income for the year	**6,525**	7,079
Retained earnings at beginning of the year	**19,319**	19,894
Recovery (payment) of dividend to Canada	**377**	(5,326)
Transfer to the Corporation	**(6,980)**	(2,328)
Retained earnings at end of the year	**$ 19,241**	$ 19,319

11. Pension plans

As at December 31, 1997, the updated actuarial reports of RTI's contributory plan indicate that the actuarial present value of the accrued pension benefits amounts to $9,127,000 (1996 – $8,563,000) and the market value of the pension fund assets amounts to $9,272,000 (1996 – $8,569,000). RTI's pension expense for 1997 of $725,000 (1996 – $652,000) is actuarially determined.

12. Related party transactions

Through common ownership, the Corporation is related to all Government of Canada created departments, agencies and Crown corporations.

In accordance with the Act, operating and administrative costs incurred by the Corporation in the amount of $2,900,000 have been recovered from the local port corporations in 1997 (1996 – $4,230,000). These recoveries are offset against the related expenses. Operating expenses include rental costs of $1,901,000 (1996 – $1,777,000) charged by a local port corporation. At December 31, 1997, $106,000 (1996 – $254,000) of these rental costs are included in accounts payable and accrued liabilities. Interest charges on the debt to EDC, a Crown corporation, amounted to $11,493,000 (1996 – $11,911,000). Included in accounts payable and accrued liabilities is $4,448,000 (1996 – $4,453,000) of interest payable to EDC (see note 8).

Included in accounts receivable is a receivable from the Interport Loan Fund of $3,491,000 (1996 – $2,328,000) (see note 10).

Investment income of $3,533,000 (1996 – $3,891,000) was earned on Canada securities and interest charges of $23,000 (1996 – $29,000) were paid to Canada.

Details of other transactions with the Government of Canada are disclosed in notes 3, 4, 5(b), 6, 8, 9, 10 and 14(b).

13. Economic dependence

The Corporation's wholly-owned subsidiary, RTI, is dependent upon the production of two coal producers who provided 66.2 percent and 29.1 percent respectively of the subsidiary's 1997 revenue (1996 – 66.5 percent and 25.2 percent) under throughput agreements. RTI's throughput agreements are in place until March 31, 1998 and 1999. RTI and the producers have commenced negotiations for the renewal of these agreements. The outcome of these negotiations may have an impact on the future operations and management is currently investigating other alternatives.

14. **Commitments**

(a) Contractual obligations for the completion, construction and purchase of capital assets are estimated at $2,210,000 of which most will be incurred in the year ending December 31, 1998.

(b) RTI leases from the Prince Rupert Port Corporation the land on which the coal terminal facility is constructed. The lease is for 25 years starting March 31, 1984, with a 20-year renewal term beginning March 31, 2009. Lease payments are based on throughput charges per tonne which are subject to escalation provisions relating to increases in the Canadian Consumer Price Index for each year and a minimum annual throughput of 6.35 million tonnes (1996 – 6.35 million tonnes).

(c) The Corporation's administrative office leases premises under an agreement which expires September 30, 2005. The future rent payable to the expiry date is approximately $681,000 in 1998, $885,000 per year from 1999 to 2004 and $663,000 in 2005. No expense has been recorded for future lease payments upon dissolution as the ultimate utilization of the premises is not determinable at this time. In the opinion of Management, the impact on these financial statements will be minimal.

(d) In accordance with Ports Canada policy respecting dividends to Canada, the Corporation is required to pay a dividend in respect of the 1997 fiscal year. This dividend, payable in 1998, amounts to approximately $243,000 and will be applied against the Corporation's deficit.

15. **Contingencies**

Claims aggregating approximately $5,895,000 in respect of lawsuits, guarantees, employee agreements, damages allegedly suffered on the Corporation's property and sundry other matters in dispute have been received by the Corporation. In the opinion of management, the final outcome of such claims should not result in any material financial liability and, accordingly, no provision has been recorded in this respect.

Employees are permitted to accumulate unused sick leave. However, such leave entitlements do not vest and can be used only in the event of illness. The amount of accumulated sick leave entitlements which will become payable in the future cannot reasonably be determined. Payments of sick leave benefits are included in current operations.

In the normal course of business, the Corporation is exposed to potential environmental issues, some of which have been identified. The ultimate effect of which is not determinable at this time, and as such, no provision has been made in the accompanying financial statements.

16. ***Canada Marine Act***

Under the proposed *Canada Marine Act,* the Ports of Saguenay, Sept-Îles and Trois-Rivières have been designated to become Canada Port Authorities. The facilities at Port Colborne and Prescott are in the process of being divested. If divestiture is not completed prior to the dissolution of the Corporation, they will become public ports, under the administration of the Minister of Transport, as defined in the proposed Act. The future status of RTI and the Port of Belledune, after the dissolution of the Corporation, are yet to be determined. However, the Minister of Transport is named the appropriate minister for RTI for the purposes of the *Financial Administration Act*. The Corporation's present administrative office will be wound-up on the dissolution of the Corporation and the Corporation's remaining assets and obligations will devolve to the Crown under the administration of the Minister of Transport. It is anticipated that the *Canada Marine Act* will be proclaimed on January 1, 1999.

The effects of the dissolution of the Corporation are not fully known at this time. Provision has been made with respect to the carrying values of assets at the Port of Prescott. No expense has been recorded with respect to differences between the carrying values of assets and obligations and those values which may ultimately arise on the transfer of the other divisional ports and RTI, as the differences, if any, are not determinable at this time. A provision for determinable amounts relating to the wind-up of the administrative office has been made (see notes 6 and 14(c)).

17. **Comparative figures**

Certain of the 1996 comparative figures have been reclassified to conform to the current year's presentation.

Halifax Port Corporation 1997

Joint Message from the Chairman of the Board and the President and Chief Executive Officer

We are pleased to report on the financial results and operating activities of the Halifax Port Corporation (Corporation) for the year ended December 31, 1997.

By most measures, 1997 was an excellent year for the Corporation. Improvements in both cargo volumes and financial performance were realized when compared with the previous year. Total port (including private facilities) cargo volume at 14.1 million tonnes was up 9.2 percent. The increase was largely attributable to gains of 8.7 percent and 19.9 percent in petroleum products and containers respectively.

Cargo volume over Corporation facilities in 1997 totalled 4.4 million tonnes, a 12.7 percent increase over the previous year. The growth was due entirely to increased container traffic. Though the 3.8 million tonnes of containerized cargo handled at the Corporation's facilities in 1997 did not establish a volume record, the .459 million TEU's (twenty foot equivalent units) handled during the year did. A number of factors contributed to the impressive growth in container cargo including an expanding global economy, the first full year impact of the new services that commenced in 1996 and continued growth in the U.S. midwest market as a result of the improved access provided by the Sarnia/Port Huron tunnel.

In 1997, bulk cargo declined 31.3 percent to .26 million tonnes due in part to the fallout from elimination of the *Feed Freight Assistance Act* in 1995. Breakbulk cargo declined 5.1 percent to .17 million tonnes. Though the drop in breakbulk cargo was due to lower volumes of forest product, the decline occurred prior to the opening of the new forest products shed in June. Volumes between June and December actually increased by 60 percent when compared with the previous year.

The cruise business was another success story in 1997. The number of vessel calls was unchanged from the previous year but the number of passengers increased by 21.7 percent to 44,328, a record year for cruise passengers.

In 1997, the Corporation achieved its major objectives which were to progressively increase its container cargo volume, expand its non-container revenue base, maintain financial self sufficiency and increase the efficiency and functionality of its facilities. Nineteen ninety seven was the fifth consecutive year the Corporation achieved year over year gains in containerized cargo. It is also the fifth consecutive year the Corporation posted year over year gains in both net income and funds from operations. Though there were declines in bulk and breakbulk cargos, the negative financial effects were more than offset by cargo volume warranties, increases in facility rentals and growth in the cruise business. In 1997, the Corporation completed its $4.9 million project to redevelop Pier A and realized immediate benefits in the form of increased forest products cargo. The $5.0 million project to reconstruct the wharf at 9A commenced in 1997. When completed in 1998, it will provide a more efficient facility for handling the growing sulphide cargo.

Capital expenditures in 1997 reached $8.1 million. The majority of this was spent on completing the Pier A Redevelopment Project ($1.5 million), resurfacing the west end of Pier A Terminal ($1.5 million), and continuing with the grain elevator capital repair program ($1.6 million). Most of the balance of the expenditures were directed to road and terminal resurfacing, electrical upgrades and building repairs ($3.5 million). It is worthy to note that all of the Corporation's capital projects since 1985, totalling $51.3 million, have been financed through working capital.

Revenue from operations grew by 13.9 percent in 1997 compared with the previous year. As the port's tariffs have not increased since 1989, the growth was due entirely to increased cargo, vessel and rental activities. Operating expenses increased by 13.7 percent. Generally, this increase can be attributed to severance payments related to the disbanding of the Ports Canada Police detachment at Halifax, as well as increased repair and maintenance activity.

On direction from the Minister of Transport, the Ports Canada Police force was disbanded in 1997, ending a 29 year presence of the local detachment on the Halifax waterfront. The centralized nature of the national force was inconsistent with the decentralized direction in which port administration is moving in Canada. Also, although the Ports Canada Police served the port well over the years, the annual cost, which had risen to $1.2 million, was proving to be excessive. Alternate arrangements for policing services have been concluded with the Halifax Regional Municipality at considerable cost savings to the Corporation. The new policing arrangement will free up additional funds for investment into port infrastructure. We take this opportunity to thank the personnel at the local detachment for their service over the years and in particular to acknowledge their professionalism and dedication to duty during the past year, under difficult circumstances. We wish them well.

Over the last five years, growth at the Port of Halifax has been impressive, but in our view it will be eclipsed in the coming years. There are several justifiable reasons for our optimism. Since completing the new forest products shed in 1997, demand has exceeded its capacity on several occasions, prompting questions even at this early date of the need for a further expansion of the facility. In regard to the cruise business at the port, based on early confirmations of vessel calls, growth will again be in the double digit range in 1998. But the greatest potential for growth lies with container traffic. The trend in the industry is towards the deployment of post panamax vessels. Halifax is the only major port on the east cost of Canada capable of efficiently handling these huge vessels. To ensure the Port of Halifax is in a position to seize the unprecedented opportunity presented by this emerging trend, the major stakeholders at the port, including the Corporation, CN, labour and the terminal operators, have agreed to form a committee to assess the situation and develop an appropriate strategy. The ensuing results could well shape the direction of port development well into the future.

Finally, the achievements of the past year are due in large measure to the hard work and effectiveness of the Corporation's staff and the support and commitment of the port's customers and stakeholders. To them we extend our utmost gratitude.

Mervyn C. Russell
Chairman of the Board

David F. Bellefontaine
President and Chief Executive Officer

Auditors' Report

To the Honourable David Collenette, P.C., M.P.
Minister of Transport

We have audited the balance sheet of Halifax Port Corporation as at December 31, 1997, and the statements of earnings and surplus and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1997, and the results of operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with the *Financial Administration Act* and Regulations, the *Canada Ports Corporation Act*, and the by-laws of the Corporation.

Doane Raymond

Chartered Accountants
Halifax, Nova Scotia
January 23, 1998

Balance Sheet

	1997	1996
As at December 31		
Assets		
Current		
Cash	$ 347,652	$ 112,052
Investments (Note 3)	8,575,434	11,595,477
Accounts receivable	3,702,636	3,365,886
Grants in lieu of municipal taxes	77,850	96,645
Materials and supplies	40,594	49,983
	12,744,166	15,220,043
Accounts receivable	293,935	132,392
Property and equipment (Note 4)	63,229,910	59,342,982
	$ 76,268,011	$ 74,695,417
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 4,296,666	$ 5,128,615
Deferred revenues	588,445	600,744
	4,885,111	5,729,359
Accrued employee benefits	470,204	723,888
	5,355,315	6,453,247
Equity		
Contributed capital	50,856,865	50,856,865
Surplus	20,055,831	17,385,305
	70,912,696	68,242,170
	$ 76,268,011	$ 74,695,417

Commitments (Note 5).
Contingent liability (Note 6).
See accompanying notes to financial statements.
On behalf of the Board:

Mervyn C. Russell
Chairman

David F. Bellefontaine
President and Chief Executive Officer

Halifax Port Corporation

Statements of Earnings and Surplus

	1997	1996
Year ended December 31		
Revenue from operations	$ 14,974,378	$ 13,151,952
Operating and administrative expenses	8,475,561	7,453,770
Depreciation	2,595,995	2,569,233
Grants in lieu of municipal taxes	893,300	926,051
	11,964,856	10,949,054
Earnings from operations	3,009,522	2,202,898
Investment income	260,008	519,379
(Loss) gain on disposal of fixed assets	(147,721)	336,130
	112,287	855,509
Net earnings	$ 3,121,809	$ 3,058,407
Surplus, beginning of year	$ 17,385,305	$ 14,505,475
Net earnings	3,121,809	3,058,407
Dividends	(4511,283)	(178,577)
Surplus, end of year	$ 20,055,831	$ 17,385,305

See accompanying notes to financial statements.

Statement of Changes in Financial Position

	1997	1996
Year ended December 31		
Cash derived from (applied to)		
Operating		
Net earnings	$ 3,121,809	$ 3,058,407
Depreciation	2,595,995	2,569,233
Other	(105,963)	(279,020)
	5,611,841	5,348,620
Change in non-cash operating working capital	34,801	204,334
	5,646,642	5,552,954
Financing		
(Increase) decrease in accounts receivable	(161,543)	31,818
(Decrease) increase in construction payable	(1,187,615)	1,557,083
Dividends paid	(451,283)	(178,577)
Capital grants	1,509,490	
	(290,951)	1,410,324
Investing		
Additions to property and equipment	(8,143,378)	(5,355,668)
Proceeds on disposal of assets	3,244	392,274
	(8,140,134)	(4,963,394)
Net (decrease) increase in cash and short-term investments	(2,784,443)	1,999,884
Cash and short-term investments, beginning of year	11,707,529	9,707,645
Cash and short-term investments, end of year	$ 8,923,086	$11,707,529

See accompanying notes to financial statements.

Halifax Port Corporation

1. In accordance with the *Canada Ports Corporation Act*, sections 6.1 and 6.2, a petition for the establishment of a local port corporation at the Port of Halifax was approved and the Halifax Port Corporation was established effective June 1, 1984.
   In accordance with the *Canada Ports Corporation Act*, the assets, liabilities and equity were transferred at their carrying values in the accounts of the Canada Ports Corporation – Port of Halifax to Halifax Port Corporation.

2. **Summary of significant accounting policies**

   Investments
   The investments, which are direct and guaranteed securities of Canada, are shown at amortized cost. Premiums or discounts are amortized over the periods to maturity.

   Fixed assets
   Fixed assets are recorded at cost, except for those transferred to the Corporation from Canada, which are recorded at appraised or fair market value established at the time of transfer. Grants, including forgivable loans, towards capital projects received from Canada and from third parties are deducted from the cost of the related fixed assets.

   Depreciation is calculated on the straight-line basis for the full year, commencing with the year the asset becomes operational, using rates based on the estimated useful lives of the assets.

   Pension costs
   All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Contributions to the plan are required from both the employees and the Corporation. The annual contributions for pensions are recognized in the accounts on a current basis.

   Grants in lieu of municipal taxes
   The expense for grants in lieu of municipal taxes is based on estimated municipal assessments adjusted in accordance with the *Municipal Grants Act*. Grants are paid after the amounts have been audited by the Municipal Grants division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

   Employee benefits
   The Corporation accrues in its accounts, annually, the estimated liabilities for severance pay, annual leave, and overtime compensatory leave, which are payable to its employees in subsequent years under its collective agreements or in accordance with its policy.

3. **Investments**

	1997		1996	
	Amortized Cost	**Face Value**	Amortized Cost	Face Value
Short term	**$ 8,575,434**	**$ 8,634,000**	$ 11,595,477	$ 11,682,000

4. **Property and equipment**

	1997				1996
	Depreciation Rates	Cost	Accumulated Depreciation	**Net Book Value**	Net Book Value
Land		$ 24,827,121	$	**$ 24,827,121**	$ 24,585,676
Dredging	2.5-6.7%	3,930,091	2,720,656	**1,209,435**	1,269,322
Berthing structures	2.5-10%	35,385,194	23,214,548	**12,170,646**	12,732,792
Buildings	2.5-10%	23,584,039	13,130,156	**10,453,883**	7,174,614
Utilities	3.3-10%	8,940,196	4,205,291	**4,734,905**	4,507,426
Roads and surfaces	2.5-10%	12,570,966	7,339,148	**5,231,818**	2,553,995
Machinery and equipment	5-100%	10,727,878	8,313,870	**2,414,008**	2,544,900
Office furniture and equipment	20%	1,662,158	1,469,185	**192,973**	227,021
Projects under construction		1,995,121		**1,995,121**	3,747,236
		$ 123,622,764	$ 60,392,854	**$ 63,229,910**	$ 59,342,982

During the year, the Corporation recorded capital grants of $1,509,490 as a reduction in its cost of property and equipment.

5. **Commitments**
   In accordance with a policy concerning payment of dividends to the Canadian government, the Corporation is required to pay a dividend, in respect of the 1997 fiscal year, based on a method of calculation using net earnings. This dividend, payable before March 31, 1998 amounts to approximately $590,000 for 1997 and will be applied against the surplus.

6. **Contingent liability**
   During the year, the Corporation received a forgivable loan in the amount of $1,000,000. The loan is forgivable at $100,000 per year to 2003, with the remaining $300,000 being forgivable in 2004. In order for the loan to be forgiven, certain conditions regarding operations and capital investment by the Corporation must be met, as specified by the grantor.

7. **Marine policy review**
   The national marine transportation system has been and continues to be under review by the Government of Canada. The effect of this review is the proposed implementation of a new *Canada Marine Act* superceding the *Canada Ports Corporation Act.*

   At this time, the impact upon the Corporation is not known.

Board of Directors

Mervyn C. Russell [1/3]
Chairman
President, Maritime Broadcasting System Ltd.
Halifax, Nova Scotia

David I. Jones, Q.C. [1/4]
Vice Chairman
Partner, Russell Piggott Jones
Dartmouth, Nova Scotia

Linda M. Brennan [1/2/4]
Business Administrator
Dartmouth, Nova Scotia

Howard W. McNutt [2]
Vice-President, Corporate Communications Limited
Halifax, Nova Scotia

Robert A. Wilson [1/2/3/4]
Life Insurance Broker
Bedford, Nova Scotia

[1] Executive Committee
[2] Audit Committee
[3] Human Resources and Compensation Committee
[4] Priorities and Planning Committee

Officers of the Corporation

Mervyn C. Russell
Chairman

David I. Jones, Q.C.
Vice Chairman

David F. Bellefontaine
President and Chief Executive Officer

Lorraine E. Brenton
Corporate Secretary

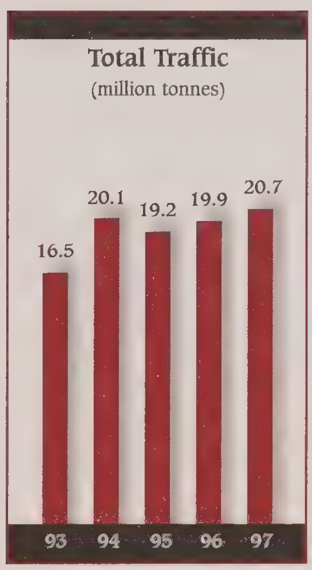
Dennis W. Creamer
Vice-President, Finance and Real Property

Patricia McDermott
Vice-President, Marketing

Randall M. Sherman
Director of Operations/Harbour Master

Lawrence A. Freeman
Chief Legal Officer

Montréal Port Corporation 1997



Joint Message from the Chairman of the Board and the President and Chief Executive Officer

Thanks mainly to record container traffic for a fifth consecutive year and remarkable growth in the grain sector, total traffic at the Port of Montréal reached 20.7 million tonnes in 1997, an increase of 3.9 percent compared with the previous year. It was the highest total traffic figure in the last seven years despite a huge decrease in petroleum products traffic.

The Montréal Port Corporation also recorded net earnings for an 18th consecutive year and will invest more than $133 million in the expansion and improvement of its facilities over the next five years.

Containerized cargo traffic broke the eight million tonne mark for the first time at the Port of Montréal in 1997, reaching 8.2 million tonnes, an increase of 3.4 percent. The port handled this traffic in a record 870,368 twenty foot equivalent units (TEUs), compared with 852,530 containers in 1996.

Containerized cargo traffic could have been even higher, but the containerships regularly serving the port arrived and departed almost always at capacity last year. Meanwhile, Maersk, Sea-Land and P&O Nedlloyd launched their weekly service only in mid-September. Nevertheless, with the arrival of new high-capacity vessels and a full year of sailings for the three newcomers, there will be more space to transport containers in 1998.

The Port of Montréal is as competitive as ever in the marketplace and still handles by far more North Atlantic container cargo than any other port on North America's eastern seaboard. At the Port of Montréal, containerized cargo represents 40 percent of its total traffic. It is by far the traffic sector with the greatest amount of cargo and the one that generates the greatest economic spinoffs. Over the last five years, the port's container traffic has increased an average of 7.3 percent annually.

In the non-containerized general cargo sector, traffic reached approximately 700,000 tonnes in 1997, an increase of 31.7 percent. On the whole, containerized and non-containerized general cargo traffic reached an unprecedented 8.9 million tonnes in 1997, an increase of 5.2 percent.

Thanks to an excellent harvest in 1996, fast and efficient rail shipments to the port's grain terminal, and highly-competitive tariffs, grain traffic doubled to reach 2.8 million tonnes in 1997, the best result in the last nine years. Grain traffic allowed dry bulk traffic on the whole to increase by 20.8 percent to reach 7.5 million tonnes in 1997, despite a decrease of 2.6 percent in various dry bulks such as iron ore, copper, nickel and sugar.

Petroleum products traffic dropped by 25.4 percent to total three million tonnes in 1997. This traffic felt, for the first time over the course of an entire year, the effects of Ultramar's decision to ship refined products by rail to both the Greater Montréal region and New England. Petroleum products traffic, suffering from increased competition from other energy sources, was solely responsible for the decrease in liquid bulk traffic on the whole. It totalled 4.3 million tonnes, down 17.9 percent. On the other hand, various liquid bulks – hydrocarbons other than fuel, chemical products and vegetable oils – increased in 1997, reaching 1.3 million tonnes, up 7.2 percent.

The Port of Montréal welcomed 29,324 cruise ship passengers in 1997, 10,246 more than the previous year. The void left by two lines that disappeared from the market in the Summer of 1996 and had often called at Montréal in the past, has almost been filled.

For the year ending December 31, 1997, the Montréal Port Corporation reported net earnings for an 18th consecutive year. These net earnings reached $12.4 million, up 5.1 percent. They comprised net earnings from operations of $6.8 million and net investment income of $5.6 million.

Revenue from operations totalled $56.6 million in 1997, compared with $56.2 million the previous year. Operating and administrative expenses decreased slightly to $49.9 million in 1997 from $50.1 million the previous year. These expenses have decreased 3.8 percent compared with the average of the last 10 years.

The Montréal Port Corporation's excellent financial health is an essential element to ensure the dynamic growth of the port. We are pleased and proud to inform the shareholder, that again last year, our solid financial situation allowed us to improve and expand our facilities, offer highly-competitive tariffs and take other measures to spur port activity over the short and long-term.

For example, all port tariffs are frozen for a sixth consecutive year in 1998, excluding the fact that wharfage charges on petroleum products increased by one cent per tonne in 1997. We have also enhanced our incentive program for containerized cargo traffic. With the incentives and tariff freeze, net wharfage charges on containerized cargo at the port should average $1.91 per tonne in 1998, 34 cents less than in 1985.

The Corporation has taken several other measures to make the port more competitive. We are counting more than ever on new technologies, a rigid control of our costs, intensification of our marketing and communications efforts, and human resources skills development and mobilization.

The Corporation understands that the competition will never let up, but we are confident in our means and those of our partners: shipping lines and agents, terminal operators, railways and trucking, longshoremen and checkers, pilots, suppliers, etc. We express our heartfelt thanks to all our employees and our partners for their contribution to the Port of Montréal's success.

Raymond Lemay
Chairman of the Board

Dominic J. Taddeo
President and Chief Executive Officer

AUDITORS' REPORT

To the Honourable David Collenette, P.C., M.P.
Minister of Transport

We have audited the balance sheet of Montréal Port Corporation as at December 31, 1997 and the statements of earnings, contributed capital and retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have been, in all significant respects, in accordance with Part X of the *Financial Administration Act* and regulations, and the charter and by-laws of the Corporation.

Samson Bélair
Deloitte & Touche
Chartered Accountants
Montréal, Quebec
February 3, 1998

BALANCE SHEET

	1997	1996
As at December 31, 1997	*(in thousands of dollars)*	
Assets		
Current assets		
Cash	$ 971	$ 176
Short-term investments (Note 3)	35,281	35,971
Accounts receivable	11,305	11,006
Materials and supplies	692	776
	48,249	47,929
Long-term investments (Note 3)	53,550	43,419
Fixed assets (Note 4)	157,900	158,725
Deferred costs	878	532
Other assets	247	268
	$ 260,824	$ 250,873
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 5)	$ 14,497	$ 12,285
Grants in lieu of municipal taxes	612	494
	15,109	12,779
Accrued employee benefits	3,657	4,563
Loans from the Government of Canada (Note 6)	1,540	2,242
	20,306	19,584
Equity of the Government of Canada		
Contributed capital	153,919	153,919
Retained earnings	86,599	77,370
	240,518	231,289
	$ 260,824	$ 250,873

Approved by the Board:

Raymond Lemay
Chairman

Dominic J. Taddeo
Dominic J. Taddeo
President and Chief Executive Officer

Montréal Port Corporation

Statement of earnings

Year ended December 31, 1997	1997	1996
	(in thousands of dollars)	
Revenue from operations	$ 56,620	$ 56,174
Operating and administrative expenses	35,588	37,180
Depreciation of fixed assets	10,698	11,141
Grants in lieu of municipal taxes	3,538	1,793
	49,824	50,114
Earnings from operations	6,796	6,060
Investment revenue	5,630	5,762
Net earnings	$ 12,426	$ 11,822

Statement of contributed capital and retained earnings

Year ended December 31, 1997	1997	1996
	(in thousands of dollars)	
Contributed capital		
Balance, beginning and end of year	$ 153,919	$ 153,919
Retained earnings		
Balance, beginning of year	77,370	67,990
Net earnings	12,426	11,822
Dividends	(3,197)	(2,442)
Balance, end of year	$ 86,599	$ 77,370

Montréal Port Corporation

Statement of changes in financial position

Year ended December 31, 1997	1997	1996
	(in thousands of dollars)	
Operating activities		
Net earnings	$ 12,426	$ 11,822
Items not affecting cash		
Depreciation of fixed assets	10,698	11,141
Amortization of deferred costs	54	35
Loss on disposal of fixed assets	59	230
Decrease in accrued employee benefits	(906)	(226)
	22,331	23,002
Changes in non-cash operating working capital items (Note 7)	2,074	519
	24,405	23,521
Financing activities		
Repayment of current portion of loans from the Government of Canada	(661)	(622)
Dividends paid	(3,197)	(2,442)
	(3,858)	(3,064)
Investing activities		
Increase in long-term investments	(10,131)	(16,210)
Acquisition of fixed assets	(10,253)	(11,361)
Disposal of fixed assets	321	420
Increase in deferred charges	(400)	–
Decrease in other assets	21	120
	(20,442)	(27,031)
Net cash inflow (outflow)	105	(6,574)
Cash position, beginning of year	36,147	42,721
Cash position, end of year	$ 36,252	$ 36,147

Cash position comprises cash and short-term investments.

1. Status and nature of activities

The Montréal Port Corporation (the Corporation) was incorporated by letters patent in accordance with subsection 6.2(1) of the *Canada Ports Corporation Act* on July 1, 1983.

Under Section 6.5 of the same *Act*, on the establishment of a local port corporation, all rights, obligations and liabilities of the Canada Ports Corporation in relation to that harbour shall become rights, obligations and liabilities of the local port corporation and the administration of all such property and works within the limits of that harbour administered by the Board shall be deemed to have been transferred to the local port corporation, in this case the Corporation.

2. Accounting policies

The financial statements have been prepared in accordance with generally accepted accounting principles and include the following significant accounting policies:

Investments

Investments are shown at amortized cost, with premiums or discounts amortized over their periods to maturity.

Materials and supplies

Materials and supplies are valued at the lower of cost and replacement cost. Cost is determined substantially on an average cost basis.

Fixed assets

Fixed assets are recorded at original cost with related accumulated depreciation transferred from Canada Ports Corporation; subsequent acquisitions are recorded at cost.

Depreciation is calculated according to the straight-line method for the full year, commencing in the year the asset becomes operational, using rates based on the estimated useful lives of the assets.

Deferred costs

Deferred costs are composed of costs incurred to deepen the St. Lawrence River from Montréal to Saint-Augustin. These costs are amortized over 20 years.

Pension costs

All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the plan are required from both the employees and the Corporation. These contributions represent the total liability of the Corporation and are recognized in the accounts on a current basis.

Grants in lieu of municipal taxes

Grants in lieu of municipal taxes are based on estimated municipal assessments adjusted in accordance with the *Municipal Grants Act*. Grants are paid after the amounts have been audited by the Municipal Grants Division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

Employee benefits

The Corporation accrues in its accounts the estimated liabilities for severance pay, annual leave, sick leave and overtime compensatory leave, which are payable to its employees in subsequent years under collective agreements or in accordance with Corporation policy.

3. Investments

Funds are invested in direct and guaranteed securities of the Government of Canada. As at December 31, 1997, the market value of short-term investments is equivalent to their amortized cost, and the market value of long-term investments is \$59,990,372 (\$50,974,070 in 1996).

4. Fixed assets

		1997			1996
		(in thousands of dollars)			
	Depreciation Rates	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	–	$ 50,737	$ –	$ 50,737	$ 50,864
Dredging	2.5 – 10.0%	16,178	14,928	1,250	1,534
Berthing structures	2.5 – 10.0%	64,402	49,343	15,059	15,731
Buildings	2.5 – 10.0%	68,991	42,123	26,868	28,234
Utilities	3.3 – 20.0%	25,825	14,281	11,544	9,920
Roads and surface	2.5 – 10.0%	85,527	41,341	44,186	42,868
Machinery and equipment	5.0 – 33.3%	63,622	58,544	5,078	5,964
Office furniture and equipment	20.0 – 33.3%	11,125	9,260	1,865	2,700
		386,407	229,820	156,587	157,815
Projects under construction		1,313	–	1,313	910
		$387,720	$229,820	$157,900	$158,725

5. Accounts payable and accrued liabilities

	1997	1996
	(in thousands of dollars)	
Current portion of loans from the Government of Canada	$ 702	$ 661
Deferred revenue	539	469
Other	13,256	11,155
	$ 14,497	$ 12,285

6. Loans from the Government of Canada

	1997	1996
	(in thousands of dollars)	
Loans, 6.25%, payable to 2000 in annual instalments of $842,561 including interest	$ 2,242	$ 2,903
Current portion	702	661
	$ 1,540	$ 2,242

Principal repayment requirements over the next years are as follows:

1998	$ 702,449
1999	746,352
2000	792,999

7. Changes in non-cash operating working capital items

	1997	1996
	(in thousands of dollars)	
Accounts receivable	$ (299)	$ 2,042
Materials and supplies	84	(90)
Accounts payable and accrued liabilities, net of current portion of loans from the Government of Canada	2,171	1,333
Grants in lieu of municipal taxes	118	(2,766)
	$ 2,074	$ 519

8. Contingencies

Claims aggregating approximately $7,694,000 in respect of lawsuits and guarantees related to the Corporation's property have been made against the Corporation but are not reflected in the accounts. In the opinion of the Corporation, its position is defensible and the final outcome of such claims should not result in any material loss.

9. Commitments

(a) Contractual obligations for the completion, construction and purchase of property, plant and equipment are estimated at $941,000.

(b) Contractual obligations for operating expenditures are estimated at $720,000.

(c) In accordance with a policy concerning payment of dividends to the Canadian government, the Corporation would be required to pay a dividend, in respect of the 1997 fiscal year, based on a method of calculation using net earnings. This dividend, payable before March 31, 1998, would amount to approximately $3,378,000 for 1997 and would be applied against retained earnings.

10. Related party transactions

In the ordinary course of business, the Corporation enters into transactions with related parties, including the Goverment of Canada and its agencies and other Crown corporations.

The Corporation derives revenue from related parties principally from grain warehousing for an amount of $3,410,000 ($1,425,000 in 1996), switching charges of $ nil ($1,061,000 in 1996), wharfage revenues of $612,000 ($494,000 in 1996) and rental revenues of $1,208,000 ($1,202,000 in 1996). The expenses paid to related parties are principally reimbursements to Canada Ports Corporation for head office charges related to the Corporation for an amount of $1,372,000 ($2,914,000 in 1996).

The Corporation has accounts receivable of $447,000 ($413,000 in 1996) and accounts payable of $112,000 ($896,000 in 1996) with the same related parties.

Board of Directors

Raymond Lemay *
Chairman
Executive Vice-President
Québecor inc.
Montréal, Quebec

Yvon Lamarre *
Vice Chairman
Principal Advisor
SNC Lavalin inc.
Montréal, Quebec

Hélène Béïque
President
Groupe Archi Plus Inc.
Montréal, Quebec

Sam L. Elkas *
Kirkland, Quebec

Yvon Labrosse
Mayor, Town of Montréal-East
Montréal-East, Quebec

Régis Rémillard
Notary
Verdun, Quebec

* Member, Executive Committee

Officers of the Corporation

Raymond Lemay
Chairman

Dominic J. Taddeo
President and Chief Executive Officer

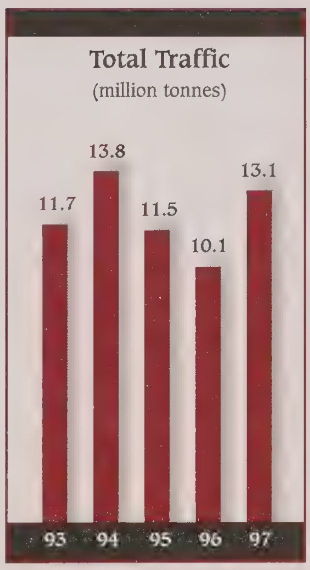
Normand Fillion
Vice-President, Marketing and Development

Michel L. Lesage, Eng.
Vice-President, Operations

Jean Mongeau, Notary
Vice-President, Legal Affairs and Corporate Secretary

Sylvie Vachon
Vice-President, Administration and Human Resources

Prince Rupert Port Corporation 1997



Joint Message from the Chairman of the Board and the President and Chief Executive Officer

The Prince Rupert Port Corporation is proud to report on its activities and results for the fiscal year ended December 31, 1997.

Throughput at the Port of Prince Rupert in 1997 totaled 13.1 million tonnes. This 30 percent increase from 1996 levels provided the port with the third best year in its history. This excellent performance is credited to the port's effective marketing strategy which focused on Alberta and Saskatchewan origins for enhanced exports. The result was new volumes of special crops and processed agricultural products, coal and petroleum coke, and woodpulp in 1997. Alberta and Saskatchewan will continue to figure very strongly in the Port of Prince Rupert's future.

With Canadian Wheat Board and non-Board grain exports of well over 5.1 million tonnes – the fourth best performance ever – it is clear that the port is meeting the challenges brought by the 1995 elimination of subsidies under the *Western Grain Transportation Act*. Working with our partners towards improvements in the Canadian transportation system, and promoting awareness of the many economic advantages of shipping through Prince Rupert, will continue to be a major thrust of the port's marketing and public communications initiatives. In addition, the port will participate actively in the federal government's 1998 Transportation Review to assure our future as a major outlet for western grain.

Thanks to new shipments of thermal coal and to a more than doubling of petroleum coke, shipments through Ridley Terminals Inc. coal terminal in 1997 rose to 6.9 million tonnes, 30 percent higher than the 5.3 million tonnes shipped in 1996. However, uncertainties in Japanese markets may cut Ridley Terminals' exports in 1998.

The port has made substantial progress in increasing pulp traffic at Fairview Terminal. Overall, pulp traffic at Fairview rose from 74,000 tonnes in 1996 to over 97,000 in 1997, an increase of over 31 percent, the port's best year ever. Boosted by a major pulp shipping contract for 1998, the port remains extremely optimistic about its future as a leading pulp export outlet. The port constructed 70,000 square feet of new pulp storage capacity in 1998 to address this increase in demand and foster further growth.

Specialty grain volumes through Fairview Terminal increased marginally in 1997 to 189,398 tonnes from 188,989 tonnes in 1996. The port assumed operation of the Fairview Agport facility from Continental Grain in January 1998. Intensive marketing efforts and capital improvements to the facility in 1998, including new ship loading equipment and increased storage, should foster further growth in specialty grain volumes.

Lumber shipments were off by 25 percent compared to 1996 partly due to the financial uncertainties over Skeena Cellulose Inc., a company facing bankruptcy through mid-1997, from which shipments dropped significantly. Increases from other lumber and new panel board customers partially compensated for this decline resulting in a total of 225,000 tonnes being shipped in 1997 compared to 298,000 in 1996.

Ferry and cruise passenger traffic through the Port of Prince Rupert fell by about 18 percent to 144,000 passengers. The reduction is directly attributable to the Alaska Marine Highway suspension of service to Prince Rupert in retaliation for a blockade of the ferry *Malaspina* by British Columbia fishermen in the summer of 1997. Ferry service has resumed and the Prince Rupert Port Corporation is working to enhance the facilities used by the company. The port continues to pursue the development of the cruise industry and is actively marketing the area as a port of call. The port will commence development of a cruise ship facility to foster growth in the industry in 1998.

The financial results of the Corporation show operating revenues of $13.3 million, an increase of six percent over 1996. Earnings from operations were $2.3 million, an improvement which reflects both an increase in revenues and a reduction in operating costs. Net income totaled $2.8 million which will help the Prince Rupert Port Corporation achieve the aggressive goals outlined in the 1998 Corporate Plan.

The port has made significant strides in realizing its long term vision of diversifying its traffic base through greater utilization of existing facilities and the development of new infrastructure to handle new commodities. Great progress has been made in bringing a number of port development opportunities closer to fruition. Demand for port property, facilities and services continues to rise as more and more local, national and global investors become aware of Prince Rupert's advantages.

Several major business development projects are expected to require heightened effort in 1998 as investors come closer to making their final decisions. For example, a pig iron plant involving South American ore and British Columbia coal is taking shape on the drawing board and would take advantage of the vast area of heavy industrial development land available at Ridley Island. The provincial government's announcement to pursue the development of an aluminum smelter, potentially at another location on Ridley Island, also bodes well. Other projects related to petro-chemicals and bulk liquids are expected to regain momentum when global market conditions improve. Another key activity for the port is the continued marketing and engineering efforts toward the realization of a sulphur terminal at Prince Rupert.

An important area of activity in early 1997 was preparation for the modifications to our system of governance to be ushered in by the new *Canada Marine Act*. We have already begun to devote the appropriate attention and resources needed for a successful transition to the new regime and expect the new legislation to further fuel our momentum.

The port has made significant progress in achieving its objectives during 1997. We anticipate that 1998 will bring dramatic success in some areas and disappointments attributable to the uncertain conditions with our trading partners in Asia. We also confirm that the necessary procedures and controls are in place to ensure the safeguard of the Corporation's assets.

The Board and staff of the Prince Rupert Port Corporation would like to thank out-going Board Chairman, Peter Lester and Director Doug Moore for their contributions to a successful year at the port and look forward to working with the new Directors Mike Shaw and Bob Hill toward further prosperity in 1998. Thanks to everyone involved in port activities in Prince Rupert for their commitment and hard work during the year. The port's vision of being a major participant in Canada's export activity is being realized with the continued dedication and cooperation of all the players on the waterfront.

Rhoda Witherly
Chairman of the Board

Donald H. Krusel
President and Chief Executive Officer

Auditors' Report

To the Honourable David Collenette, P.C., M.P.
Minister of Transport

We have audited the balance sheet of Prince Rupert Port Corporation as at December 31, 1997 and the statements of earnings and surplus and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act,* we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, and the letters patent and by-laws of the Corporation.

KPMG

Chartered Accountants
New Westminster, British Columbia
January 30, 1998

Balance Sheet

December 31, 1997	1997	1996
Assets		
Current assets:		
Cash	$ 619,975	$ 1,495,708
Investments (note 2)	9,551,528	14,811,561
Accounts receivable	2,546,040	1,519,194
Materials and supplies	196,909	153,162
	12,914,452	17,979,625
Capital assets (note 3)	92,371,112	94,278,897
	$ 105,285,564	$ 112,258,522
Liabilities and Equity of Canada		
Current liabilities:		
Accounts payable and accrued liabilities	$ 817,009	$ 338,475
Grants in lieu of municipal taxes	750,000	910,247
Deferred revenues	276,979	275,391
Current portion on loans from Canada	–	371,545
	1,843,988	1,895,658
Loans from Canada	–	9,625,656
Equity of Canada:		
Contributed capital	84,611,805	84,611,805
Surplus	18,829,771	16,125,403
	103,441,576	100,737,208
	$ 105,285,564	$ 112,258,522

Commitments (note 4)
See accompanying notes to financial statements.

On behalf of the Board:

Rhoda Witherly
Chairman

Donald H. Krusel
President and Chief Executive Officer

Prince Rupert Port Corporation

Statement of Earnings and Surplus

Year ended December 31, 1997	1997	1996
Revenue from operations	$ 13,245,653	$ 12,514,232
Expenses:		
Contractual services	4,581,873	4,985,316
Operating and administrative	3,708,970	3,266,854
Amortization	2,061,347	2,335,484
Grants in lieu of municipal taxes	658,263	797,755
	11,010,453	11,385,409
Earnings from operations	2,235,200	1,128,823
Other earnings (expense):		
Interest	493,433	794,563
Interest expense	–	(1,180,734)
	493,433	(386,171)
Net earnings	2,728,633	742,652
Surplus, beginning of year	16,125,403	15,398,413
	18,854,036	16,141,065
Dividend to Canada	24,265	15,662
Surplus, end of year	$ 18,829,771	$ 16,125,403

See accompanying notes to financial statements.

Statement of Changes in Financial Position

Year ended December 31, 1997	1997	1996
Cash provided by (used in):		
Operations		
Net earnings	$ 2,728,633	$ 742,652
Items not involving cash:		
Amortization	2,061,347	2,335,484
Changes in non-cash operating working capital	(750,718)	89,324
	4,039,262	3,167,460
Financing		
Increase in contributed capital	–	5,000,000
Decrease in loans from Canada	(9,997,201)	(5,337,276)
Dividend to Canada	(24,265)	(15,662)
	(10,021,466)	(352,938)
Investment		
Purchase of capital assets	(153,562)	(439,517)
Increase (decrease) in cash position	(6,135,766)	2,375,005
Cash position, beginning of year	16,307,269	13,932,264
Cash position, end of year	$ 10,171,503	$ 16,307,269
Cash position is defined as:		
Cash	$ 619,975	$ 1,495,708
Investments	9,551,528	14,811,561
Cash position	$ 10,171,503	$ 16,307,269

See accompanying notes to financial statements.

Local Port Corporation:

The Prince Rupert Port Corporation was established effective June 1, 1984 as a local port corporation pursuant to the *Canada Ports Corporation Act*. The Corporation is exempt from income taxes.

On June 1, 1984, all the assets and liabilities of Canada Ports Corporation relating to the Port of Prince Rupert were transferred to the Corporation at their book value as recorded by Canada Ports Corporation.

1. **Significant accounting policies**

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results may differ from those estimates. A summary of the significant accounting policies of the Corporation is as follows:

(a) Investments

The investments, which are direct and guaranteed securities of Canada, are shown at amortized cost. Premiums or discounts are amortized over the periods to maturity.

(b) Capital assets

Capital assets are recorded at cost. Amortization is calculated on the straight-line basis commencing with the year the asset becomes operational, at rates based on the estimated useful lives of the assets as follows:

Dredging			5%
Berthing structures	2.5%	–	10%
Buildings	5%	–	10%
Roads and surfaces	3.3%	–	10%
Utilities	5%	–	10%
Machinery and equipment	5%	–	100%
Office furniture and equipment	20%	–	33.3%

(c) Pension costs

All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Contributions to the plan are required from both the employees and the Corporation. The annual contributions represent the liability of the Corporation for pensions and are recognized in the accounts on a current basis. The Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account or for indexation payments under the *Supplementary Retirement Benefits Act.*

(d) Grants in lieu of municipal taxes

The expense for grants in lieu of municipal taxes is estimated based on municipal assessments adjusted in accordance with the *Municipal Grants Act.* Grants are paid after the amounts have been audited by the Municipal Grants Division of Government Services Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

(e) Employee benefits

The Corporation accrues in its accounts annually the estimated liabilities for severance pay, annual leave and overtime compensatory leave, which are payable to its employees in subsequent years.

2. **Investments**

	1997	1996
Amortized cost	**$ 9,551,528**	$ 14,811,561
Market value	**$ 9,523,344**	$ 14,845,125

3. **Capital assets**

	1997			1996
	Cost	Accumulated amortization	Net	Net
Land	$ 63,748,741	$ –	$ 63,748,741	$ 63,748,741
Dredging	332,186	123,231	208,955	225,759
Berthing structures	36,631,080	13,060,270	23,570,810	24,660,200
Buildings	5,631,495	2,849,237	2,782,258	3,116,937
Roads and surfaces	7,283,357	5,615,955	1,667,402	1,898,846
Utilities	2,758,152	2,556,664	201,488	211,299
Machinery and equipment	2,458,475	2,354,214	104,261	77,156
Office furniture and equipment	414,023	391,570	22,453	54,926
Construction in progress	64,744	–	64,744	285,033
	$ 119,322,253	$ 26,951,141	$ 92,371,112	$ 94,278,897

4. Commitments

The Corporation rents its premises under an operating lease which expires April 30, 1999. The future rent payable to the expiry date is approximately as follows:

1998	$ 81,685
1999	27,228

5. Related party transactions

(a) During the year, the Corporation earned lease revenue of $2,041,093 (1996 – $1,723,047) from Ridley Terminals Inc., a company which is a wholly-owned subsidiary of Canada Ports Corporation. At December 31, 1997, accounts receivable included $290,491 (1996 – $124,142) from Ridley Terminals Inc.

(b) During the year, the Corporation paid $244,290 (1996 – $356,321) to Canada Ports Corporation as its share of that Corporation's head office expense. At December 31, 1997, accounts payable included $22,098 (1996 – accounts payable of $20,430) to Canada Ports Corporation.

6. Financial instruments

(a) Interest rate risk

The Company's short term investments are exposed to interest rate risk. As interest rates rise or fall, the market value of their investments will fall or rise accordingly.

(b) Fair values

The carrying values of cash, accounts receivable, accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of the instruments.

BOARD OF DIRECTORS

Rhoda Witherly *
Chairman
Business Manager
Prince Rupert, British Columbia

Michael J. Tarr *
Vice Chairman
President and Chief Executive Officer
Northern Savings Credit Union
Prince Rupert, British Columbia

Penny Denton **
Critical Care, R.N.
Prince Rupert, British Columbia

Robert H. Hill **
President, Tsimshian Tribal Council
Prince Rupert, British Columbia

Michael J. Shaw * / **
Lawyer
Prince Rupert, British Columbia

* Member, Executive Committee
** Member, Audit Committee

OFFICERS OF THE CORPORATION

Rhoda Witherly
Chairman

Michael J. Tarr
Vice Chairman

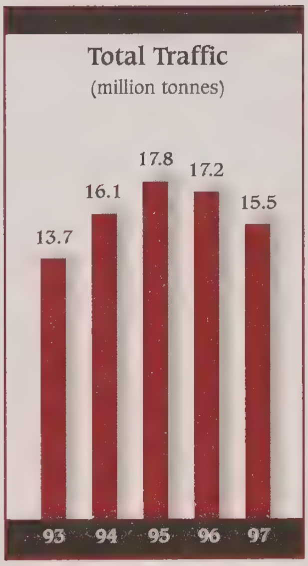
Donald H. Krusel
President and Chief Executive Officer

Joseph M. Rektor
Vice President, Finance and Operations

Donald A. Silversides, Q.C.
Chief Legal Officer

Heather McLean
Corporate Secretary

Port of Québec Corporation 1997



Joint Message from the Chairman of the Board and the President and Chief Executive Officer

Marked as it was by special events, the year 1997 was particularly memorable for the Port of Québec Corporation. Not only did it perform well in terms of business operations and financial results, but it was also front and center in many major projects. However, a labour dispute began toward the end of the year between longshoremen and stevedoring companies, over which port management had no control. The Port of Québec Corporation is pleased to present its annual report, which marks the end of another rewarding year and the dawn of a new national marine policy.

During the last year, 15.5 million tonnes of cargo moved over the wharves of the Port of Québec. However, this represents a 10 percent decrease from the total tonnage handled in 1996. This decline occurred mainly at private wharves. More than 6.7 million tonnes of cargo were handled at the Corporation's wharves, a slight decrease of about three percent from the previous year. A slow-down in grain shipments was responsible for this decline, despite a consolidation of new bulk traffic.

Grain volumes reached their lowest level since 1993 at 2.9 million tonnes, a 10 percent decrease compared with 1996. The Corporation is concerned about this since only 30 percent of the elevator's capacity is used. As for other dry bulk such as minerals and concentrates, the Corporation is pleased with the 1997 performance since it not only handled 2.2 million tonnes of this cargo (an increase of seven percent), but it also posted increases in other traffic such as nickel, iron by-products (HBI, CIB and DRI) and raw sugar. Moreover, in 1997 the Corporation was at the heart of two major capital projects: the construction of the Falconbridge nickel terminal and a new shed to store volatile bulk goods. These projects, which totalled $23 million (funded by the bank) and $4 million (funded by the stevedoring company) confirm the role of the Port of Québec as the hub of the St. Lawrence for dry bulk. Finally, the Port of Québec broke a new record in the shipment of scrap metal in 1997 with 239,989 tonnes; the previous record of 236,797 tonnes was set in 1995.

Liquid bulk volumes handled at the Corporation's wharves were essentially the same at 536,521 tonnes compared with 578,132 tonnes in 1996. The decline in certain chemical products largely explains this slight decrease. Petroleum products handled at private wharves amounted to 8.8 million tonnes in 1997, compared with 10.3 million tonnes in 1996. This 1.5 million tonne decrease consisted mainly of refined petroleum products. The lost tonnage results from a decision by the Ultramar refinery to use railway transportation (Ultratrain). Although the lost volumes are high, the financial impact on the Corporation's revenues is minimal.

The situation for general cargo poses a serious problem. For several years, the Port of Québec community has been weakened by a lack of competitiveness and a lack of equipment to attract this type of cargo. Consequently, the volume of general cargo moving through the port dropped from 650,256 tonnes in 1992 to 227,625 tonnes in 1997, which ended badly with a longshoremen's strike. However, the Corporation hopes that once the situation is remedied, the Port of Québec will once again have a labour contract geared to its economic environment. The Corporation plans to invest in equipment that will reduce loading costs and increase performance.

Among the special events which took place in 1997 were the departure of the Raglan project modules and the arrival of the oil rig Spirit of Columbus at the port. At the time, some sections of the Port of Québec were literally turned into a building site for the benefit of Québec's shipping industry.

The year 1997 was excellent for cruise business. More than 35,475 passengers called at the port compared with 21,334 in 1996 (up 66 percent). Undoubtedly, efforts made by the port to promote the St. Lawrence as a destination were successful since, for the first time in the history of the Port of Québec, major cruise lines are calling here. The Corporation will continue to work actively on this issue to resolve the question of the opening of casinos in Canadian waters and to allow the port to benefit from this rapidly growing industry.

Financially speaking, the port recorded a net income of $279,000 compared with $467,000 in 1996. Operating revenues were $13.3 million compared with $12.8 million in 1996 and operating expenditures reached $13.6 million, up from $12.7 million in 1996. There was an operating loss of $255,000 in 1997, compared with an operating profit of $107,000 in 1996. In 1997, the Port of Québec Corporation dismantled its Ports Canada Police detachment and replaced it with less expensive services provided mainly by a specialized security agency. The cost of this exercise, $798,000, should be recovered during the next two years with the savings resulting from the change in structure. It is important to indicate that all of this expense was accounted for in 1997.

In 1997, Bill C-44 disappeared and its successor, Bill C-9, came into being. During the last year, the Port of Québec Corporation has continued to play the role of rallying point for Québec's shipping industry to ensure that the port community is heard throughout the consultation process. The Corporation will maintain this role once the Bill is passed. With the new Canadian Marine Policy, the Port of Québec Corporation is ready to grasp new opportunities, to continue to serve Canada's foreign trade and to take an active part in the development of its region.

International trade is growing faster than ever. As this century ends, the Canadian shipping industry is redefining itself. Never before have so many changes taken place in such a short time commercially, economically, technologically and legally. In order to remain a major Canadian port, the Port of Québec will continue to be proactive on issues affecting the future of our industry, in cooperation with its partners in the Québec region.

Finally, the Board of Directors, management and staff of the Port of Québec Corporation wish to thank the port and maritime community who are working actively for the marine and port development of the Québec region.

Michel Bérubé
Chairman of the Board

Ross Gaudreault
President and Chief Executive Officer

Auditors' Report

To the Honourable David Collenette, P.C., M.P.
Minister of Transport
We have audited the balance sheet of Port of Québec Corporation as at December 31, 1997 and the statements of earnings and surplus and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

We further report that, in our opinion, the transactions of the Corporation that have come to our notice in the course of our examination of the financial statements have been, in all significant respects, in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Ports Corporation Act* and with the charter and by-laws of the Corporation.

Mallette Maheu
General Partnership
Chartered Accountants
Québec City, Quebec
January 23, 1998

Balance Sheet

December 31	1997	1996
Assets		
Current assets		
Cash and short-term investments (note 4)	$ 7,086,381	$ 4,708,592
Accounts receivable (note 5)	3,159,421	2,362,959
Materials and supplies	207,003	217,506
	10,452,805	7,289,057
Investments (note 4)	2,602,454	3,684,570
Fixed assets (note 6)	49,836,547	50,973,332
	$ 62,891,806	$ 61,946,959
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	$ 1,852,577	$ 1,230,174
Grants-in-lieu of municipal taxes	187,500	148,275
Deferred revenues	924,229	880,467
	2,964,306	2,258,916
Long-term debt		
Accrued employee benefits	555,709	595,000
	3,520,015	2,853,916
Equity of Canada		
Contributed capital	58,169,735	58,169,735
Surplus	1,202,056	923,308
	59,371,791	59,093,043
	$ 62,891,806	$ 61,946,959

Commitments (note 7)

On behalf of the Board:

Michel Bérubé
Chairman

Ross Gaudreault
President and Chief Executive Officer

Port of Québec Corporation

Earnings and Surplus

Year ended December 31	1997	1996
Revenue from operations	$13,348,833	$12,748,250
Expenses		
Operating and administrative	8,639,591	7,776,192
Charges from National Office	289,852	417,357
Grants-in-lieu of municipal taxes	1,338,846	1,247,625
	10,268,289	9,441,174
Earnings before depreciation, financial income and unusual item	3,080,544	3,307,076
Depreciation of fixed assets	3,335,216	3,200,139
Earnings (loss) before financial income and unusual item	(254,672)	106,937
Financial income		
Investment income	504,115	487,760
Interest expense	–	(127,853)
	504,115	359,907
Earnings before unusual item	249,443	466,844
Unusual Item		
Gain on sale of land	827,623	–
Severance pay (note 3)	(798,318)	–
	29,305	–
Earnings for the year	278,748	466,844
Surplus at beginning of year	923,308	456,464
Surplus at end of year	$ 1,202,056	$ 923,308

Changes in Financial Position

Year ended December 31	1997	1996
Operating Activities		
Earnings for the year	$ 278,748	$ 466,844
Operating items not involving cash:		
Depreciation of fixed assets	3,335,216	3,200,139
Accrued employee benefits	(39,291)	(220,000)
Gain on sale of fixed assets	(826,279)	(23,601)
Other	32,116	(6,523)
	2,780,510	3,416,859
Net change in non-cash components of working capital	737,088	(61,487)
Net funds from operations	3,517,598	3,355,372
Investing Activities		
Decrease in long-term investments	1,050,000	1,000,000
Additions to fixed assets	(2,223,341)	(1,577,215)
Sale of fixed assets less amounts receivable of $ 817,657	33,532	39,768
Net funds used for investments	(1,139,809)	(537,447)
Increase in cash position	2,377,789	2,817,925
Cash position at beginning of year	4,708,592	1,890,667
Cash position at end of year	$ 7,086,381	$ 4,708,592

Cash position consist of cash and short-term investments.

Port of Québec Corporation

Notes to the Financial Statements. Year Ended December 31, 1997.

1. **Statutes of Incorporation**
   The Port of Québec Corporation was incorporated on June 1st, 1984, under section 6.2(1) of the *Canada Ports Corporation Act*. The Corporation is exempt from income taxes.

2. **Significant Accounting Policies**
   Investments
   Investments, which are guaranteed Securities of Canada, are shown at amortized cost whereby premiums and discounts from par value are amortized over the periods to maturity.

   Fixed assets
   Fixed assets are recorded at cost except for those transferred to the Corporation from Canada, which are recorded at appraised or fair market value established at the time of transfer. Grants received from Canada and from third parties for capital projects are deducted from the cost of the related fixed assets.

   Depreciation is calculated on the straight-line basis commencing with the year the asset becomes operational, using the following annual rates:

Dredging	2.5% – 6.7%
Berthing structures	2.5% – 10%
Buildings	2.5% – 10%
Utilities	3.3% – 10%
Roads and surfaces	2.5% – 10%
Machinery and equipment	5% – 20%
Office furniture and equipment	20%

   Pension costs
   All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Contributions to the plan are required from both the employees and the Corporation. The annual contributions represent the liability of the Corporation for pensions and are recognized in the accounts on a current basis.

   Grants-in-lieu of municipal taxes
   Grants-in-lieu of municipal taxes is estimated based on municipal assessments adjusted in accordance with the *Municipal Grants Act*. Grants are paid after the amounts have been audited by the Municipal Grants Division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

   Employee benefits
   The Corporation accrues estimated liabilities for severance pay, annual leave and overtime compensatory leave, which are payable to its employees in subsequent years under collective agreements, or in accordance with its policy.

   Fair value of financial instruments
   The fair value of financial instruments other than investments, namely cash, accounts receivable and liabilities, is believed to equal their carrying amounts.

3. **Severance Pay**
   Canada Ports Corporation has undertaken the dismantling of all police services under its jurisdiction. Even though this service was the responsibility of Canada Ports Corporation, all costs were supported by Port of Québec Corporation.

   The police force of Port of Québec Corporation has been abolished as of October 12, 1997 carrying a cost of $798,318, additional to what had already been accounted for in the past.

4. **Investments**
   Short-term investments of $ 1,038,924 maturing within one year consist of guaranteed Securities of Canada and their fair value is $ 1,060,815.

   Long-term investments of $ 2,602,454 consist of Canada bonds maturing from 1999 to 2001 and their fair value is $ 2,775,031.

5. **Accounts Receivable**
   Accounts receivable include an amount of $817,657 receivable from the sale of land.

6. **Fixed Assets**

	1997			1996
	Cost	Accumulated depreciation	Net value	Net value
Land	$ 11,155,836	$ –	$ 11,155,836	$ 11,155,836
Dredging	4,561,341	4,203,856	357,485	385,546
Berthing structures	25,287,347	20,807,131	4,480,216	4,207,611
Buildings	43,306,776	24,654,052	18,652,724	19,238,211
Utilities	20,414,857	8,856,358	11,558,499	12,116,928
Roads and surfaces	6,510,255	5,446,665	1,063,590	1,176,313
Machinery and equipment	1,210,206	733,796	476,410	398,114
Office furniture and equipment	652,116	437,681	214,435	118,586
Projects in progress	1,877,352	–	1,877,352	2,176,187
	$114,976,086	$ 65,139,539	$ 49,836,547	$ 50,973,332

Projects in progress include an amount of $1,313,800 for studies and construction plans. Management believes that these costs will be charged to specified fixed assets.

7. **Commitments**

   The Corporation is committed by a financing lease to rent equipments for the unloading of nickel. The maximum cost to be supported by the Corporation is $ 23,000,000 plus accrued interest during the construction period. Annual equal installments including principal and interest are payable by the client in order to amortize the loan over a period of 20 years, renewable for another period of 10 years thereafter. The interest rate used will be the yield rate of 10-year Canada bond on the day of disbursements plus 1%. At the end of the first 10-year term, the then yield rate of a 10-year Canada bond will replace the first term interest rate.

   The Corporation has financed its investment in this financing lease with a loan of a maximum of $23,000,000 which is a decreasing revolving term loan, repayable over a period of 20 years, plus interest at the prime rate or banker's acceptance rate plus stamping fees of 0.5% per year. The prime rate and the stamping fees will increase by 0.25% and 0.2% respectively if the Canadian government becomes by a law no longer committed to the bank for Port of Québec Corporation. Moreover, the Corporation will have to assign to the bank its rent, the equipment and the terminal if such a law is passed. The Corporation takes part in swap transactions to cover itself from interest rate risk. The Corporation will have to repay 15.5% of the loan in the first 5 years.

8. **Related Party Transactions**

   During the year, the Corporation entered into transactions with related entities including various departments, government organizations and Crown corporations.

   Principally, the Corporation earned rental revenues of $573,000 (1996 - $638,000) from related entities. The expenses paid to related parties mainly consist in reimbursements of $290,000 (1996 - $417,000) to Canada Ports Corporation as its share of the Corporation's head office expenses.

   The Corporation has accounts payable of $164,000 (1996 – $243,000) and accounts receivable of $118,000 (1996 – $203,000) with the same related parties.

9. **Transportation System Review**

   The national marine transportation system has been and continues to be under review by the Government of Canada. The effect of this review is the proposed implementation in 1998 of a new *Canada Marine Act* superceding the *Canada Ports Corporation Act.*

   At this time, the impact upon the Corporation is not known, but it is not expected to have a significant impact on operations.

10. **Comparative Figures**

    Certain comparative figures have been reclassified to conform with the presentation used in the current year.

Board of Directors

Michel Bérubé *
Chairman
Ciment Québec Inc.
Charlesbourg, Quebec

Jean-Paul Morency * / **
Vice Chairman
Québec, Quebec

Anne Carrier
Québec, Quebec

Clément Gaudreau
Montmagny, Quebec

* Member, Executive Committee
** President, Port Clients Committee

Officers of the Corporation

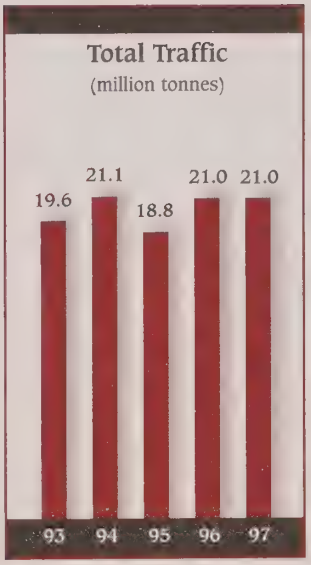
Ross Gaudreault
President and Chief Executive Officer

Mario Bernard
Vice President, Finance

Yvon Bureau
Vice President, Operations

Alexis Ségal
Vice President, Marketing

Saint John Port Corporation 1997



Joint Message from the Chairman of the Board and the President and Chief Executive Officer

We are pleased to present the Annual Report of the Saint John Port Corporation for the year of 1997, another very successful year. The continuing prosperity sets the stage for a firm foundation with the impending *Canada Marine Act* and transition to becoming a locally controlled port.

Our core strengths – diversification, productivity, customer service, teamwork within the port community and proximity to cargo – have led to our continued success.

Highlights of 1997 include:

- Best overall tonnage for our port, namely 21,039,000 tonnes;
- Addition of Forterm's new 120,000 square foot transit warehouse leading to a total of over 500,000 square feet of dedicated forest products warehouse space;
- Two new additional lines serving port shippers to South America and Far East markets;
- Seamless rail service to shippers on both Canadian National and New Brunswick Southern Railway;
- Continued strong financial performance;
- Decision to reduce port tariffs effective January 1, 1998;
- Completion of our Draft Land Use Management Plan with public input into the process;
- Expanded dredging program that tripled the scope of the program for the Corporation;
- Twinning with the Port of Shantou, China;
- Signing of the new Free Trade Zone Agreement between the provincial government and a private developer, within close proximity to the port;
- New marketing literature, including a cruise brochure promoting the Bay of Fundy – One of the Marine Wonders of the World;
- And another successful year in the cruise sector resulting in 20,000 passengers visiting our port.

Traffic

Total traffic through the Port of Saint John exceeded 21 million tonnes for the second year in a row. Strong shipments were seen in both petroleum and containers. Last year's 11 percent increase in petroleum shipments was increased yet again in 1997 by another four percent. Likewise, the 16 percent increase in the container market in 1996 grew by 19 percent during 1997.

The surge in growth during 1996 in forest products unfortunately was not sustained during 1997, however, a two percent increase is noted over the five-year average.

Potash shipments were strong during the first two quarters of 1997, however, with the closure of the Potacan mine, total potash shipments were off 28 percent by year's end.

Salt shipments were relatively stable at a two percent decrease versus the 53 percent increase the year before.

During 1997, we were able to announce the addition of two new shipping services to our port. Gearbulk began a regular monthly service to South America and Wilhelmsen Lines began a new Far East service. These additions complement service to the port by Star Shipping, Kent Line, and inducement callers Hoegh, National Shipping Company of Saudi Arabia and Spliethoff.

Financial Results

The financial stability realized in 1996 continued during 1997. A net profit was posted of $1.5 million. Despite lower revenues compared to 1996, financial success can be attributed to reduced operating and interest expenses. A program of preventative maintenance, particularly to our wharf structures, has yielded positive returns due to reduced major maintenance items in 1997. These savings were partially offset by a one time payment to the City of Saint John of a transfer fee to cover port policing and increased total dredging costs.

Our cash and investments of $12.9 million at the end of 1997 was $3.8 million higher than at the end of 1996. Investment income generated additional revenue of $444,000.

New Opportunities

Throughout the year we worked closely with Empire Stevedoring in an effort to develop a dry bulk terminal at the Port of Saint John. Unfortunately, this effort did not come to fruition and new proposals will be sought in 1998.

A new forest products transit warehouse was constructed by Forterm which added 250,000 tonnes of capacity to the already extensive shedded space available. The addition of this new warehouse firmly positions Saint John as *THE* forest products load centre on the east coast.

Capital Investment and Maintenance Program

In excess of $4.6 million was spent during 1997 on capital and maintenance in the port. This included channel and berth dredging, paving, and upgrading to various storage facilities around the port.

This was the first year we undertook channel and Courtenay Bay dredging and at $1.7 million, this was completed under budget. This year, we also completed our first cycle of Environmental Audits of all of our facilities.

Overview

Port tariffs, which have remained unchanged in Saint John since 1990, were reduced effective January 1, 1998. Diversified cargo base, reduced operating costs and a continued strong financial performance have allowed us to reduce the costs of doing business at the Port of Saint John.

The local Saint John community played a greater role with the Saint John Port Corporation during 1997. Beginning in January, we held our first ever public Annual Meeting and produced our first Annual Report. Our Land Use Management Plan was drafted and public input was received. We also hosted our largest and most comprehensive Port Days as part of National Transportation Week.

The end of 1997 saw the closing of the Saint John detachment of the Ports Canada Police. By year's end, a new model for security and policing was in place. We commend the officers and other staff of the Ports Canada Police for their professionalism and dedicated service over the years.

We also welcomed the transition of Marine Atlantic to Bay Ferries as the operator of the ferry service between Saint John and Digby, Nova Scotia.

A special thank you to the Board of Directors and the staff for their efforts to achieve another year of strong performance on all fronts.

Thank you to all of the port community: terminal operators, agents, shipping lines, port labour, stevedores, forwarders, brokers, and shippers for your continued support. With a mandate to continue the success of 1997, we look forward to the challenges and opportunities that present themselves for 1998.

Peter S. Glennie, Q.C.
Chairman of the Board

Alwyn G. Soppitt
President and Chief Executive Officer

AUDITORS' REPORT

To the Honourable David Collenette, P.C., M.P.
Minister of Transport
We have audited the balance sheet of the Saint John Port Corporation as at December 31, 1997 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Ports Corporation Act* and the by-laws of the Corporation.

Ernst & Young

Chartered Accountants
Saint John, New Brunswick,
January 22, 1998

BALANCE SHEET

	1997	1996
As at December 31	*(in thousands of dollars)*	
Assets		
Current		
Cash	$ 361	$ 122
Investments [note 3]	11,526	7,922
Accounts receivable	1,421	2,608
	13,308	10,652
Long-term		
Long-term investments [note 3]	986	983
Fixed assets [note 4]	56,976	57,879
	57,962	58,862
Total assets	$ 71,270	$ 69,514
Liabilities and Equity of Canada		
Current		
Accounts payable and accrued charges	$ 4,564	$ 2,146
Dividend payable [note 10]	91	–
Deferred revenues	148	2,523
Grants in lieu of municipal taxes	708	551
	5,511	5,220
Long-term		
Accrued employee benefits	428	367
	5,939	5,587
Equity of Canada		
Contributed capital [note 6]	61,659	61,659
Retained earnings	3,672	2,268
	65,331	63,927
Total liabilities and equity of Canada	$ 71,270	$ 69,514

See accompanying notes

On behalf of the Board:

Peter S. Glennie, Q.C.
Chairman

Alwyn G. Soppitt
President and Chief Executive Officer

Saint John Port Corporation

Statement of Income and Retained Earnings

Year ended December 31	1997	1996
	(in thousands of dollars)	
Revenues from operations	**$ 12,089**	$ 13,456
Expenses		
Operating and administrative	**8,986**	8,945
Depreciation	**1,627**	1,595
Grants in lieu of municipal taxes	**425**	705
Gain on disposal of fixed assets	**–**	(15)
	11,038	11,230
Income from operations	**1,051**	2,226
Investment income	**444**	433
Interest expense	**–**	(524)
	444	(91)
Net income	**1,495**	2,135
Retained earnings, beginning of year	**2,268**	133
	3,763	2,268
Dividend [note 10]	**91**	–
Retained earnings, end of year	**$ 3,672**	$ 2,268

See accompanying notes.

Saint John Port Corporation

Statement of Cash Flows

Year ended December 31	1997	1996
	(in thousands of dollars)	
Cash provided by (used in)		
Operations		
Net income	$ 1,495	$ 2,135
Add items not requiring a cash payment		
Depreciation	1,627	1,595
Gain on disposal of fixed assets	–	(15)
Other	61	(165)
	3,183	3,550
Net change in non-cash working capital balances [note 7]	1,387	1,931
	4,570	5,481
Financing		
Forgiveness of long-term debt	–	37,749
Addition to contributed capital	–	(37,749)
	–	–
Investing		
Additions to fixed assets	(724)	(343)
Long-term investments	(3)	(3)
Proceeds on disposal of fixed assets	–	15
	(727)	(331)
Increase in cash	3,843	5,150
Cash position, beginning of year	8,044	2,894
Cash position, end of year	$ 11,887	$ 8,044

Cash position consists of cash and short-term investments.

See accompanying notes.

1. ***Canada Ports Corporation Act* and Incorporation**

In accordance with the *Canada Ports Corporation Act*, a petition for the establishment of a local port corporation at the Port of Saint John was approved and the Saint John Port Corporation was incorporated under the laws of Canada effective at the closing of business on December 31, 1986 and commenced operations January 1, 1987.

In accordance with the *Canada Ports Corporation Act*, the assets, liabilities and equity were transferred to the Saint John Port Corporation at their carrying values in the accounts of the Canada Ports Corporation - Port of Saint John.

2. **Significant Accounting Policies**

Investments

The investments are shown at amortized cost whereby premiums or discounts from par value are amortized over the periods to maturity.

Fixed assets

Fixed assets are recorded at cost except for those transferred to the Corporation from Canada which are recorded at appraised or fair market value established at the time of transfer. Grants towards capital projects received from Canada and from third parties are deducted from the cost of the related fixed assets.

Depreciation is calculated on the straight-line basis for the full year, commencing with the year the asset becomes operational using rates as follows:

Asset	Depreciation Rates %		
Dredging	2.5	–	6.7
Berthing structures	2.5	–	10.0
Buildings	2.5	–	10.0
Utilities	3.3	–	10.0
Roads and surfaces	2.5	–	10.0
Machinery and equipment	5.0	–	100.0
Office furniture and equipment			20.0

Pension costs

All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Contributions to the plan are required from both the employees and the Corporation. The annual contributions represent the liability of the Corporation for pensions and are recognized in the accounts on a current basis.

Grants in lieu of municipal taxes

The expense for grants in lieu of municipal taxes is based on estimated municipal assessments adjusted in accordance with the *Municipal Grants Act*. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

Employee benefits

The Corporation accrues in its accounts, annually, the estimated liabilities for severance pay and annual leave which are payable to its employees in subsequent years under its collective agreements or in accordance with its policy.

3. **Investments**

Investments are direct and guaranteed securities of Canada as follows:

	1997		1996	
	(in thousands of dollars)			
	Amortized Cost	**Face Value**	Amortized Cost	Face Value
Canada Treasury Bills	**$ 11,526**	**$ 11,617**	$ 7,922	$ 7,969
Canada Bonds	**986**	**1,000**	983	1,000

4. Fixed Assets

	1997		1996	
	(in thousands of dollars)			
	Cost	**Accumulated depreciation**	Cost	Accumulated depreciation
Land	**$ 31,755**	**$ –**	$ 31,755	$ –
Dredging	**1,739**	**1,599**	1,739	1,594
Berthing structures	**48,910**	**36,692**	48,861	36,154
Buildings	**16,192**	**7,613**	16,163	7,242
Utilities	**7,591**	**5,604**	7,438	5,421
Roads and surfaces	**7,716**	**5,857**	7,216	5,497
Machinery and equipment	**1,120**	**823**	1,120	713
Office furniture and equipment	**1,388**	**1,293**	1,358	1,236
Work under construction	**46**	**–**	86	–
	$ 116,457	**$ 59,481**	$ 115,736	$ 57,857
Accumulated depreciation	**59,481**		57,857	
Net book value	**$ 56,976**		$ 57,879	

5. Forgiveness of Long-Term Debt

In 1996, term loans in the amount of $18,052,457 from Canada, bearing interest at 11% to 12.43% maturing between December 31, 1998 and 2005, were forgiven under The Supplementary Estimates and the *Appropriation Act.*

Also in 1996, the balance of a loan in the amount of $19,696,119 provided by the Province of New Brunswick, the repayment of which had been linked to the net operating income of Rodney Terminal Complex, was forgiven by the New Brunswick Transportation Authority.

Forgiveness of the two loans was credited to Contributed Capital.

6. Adjustment to Contributed Capital

	1997	1996
	(in thousands of dollars)	
Contributed capital, beginning of year	**$ 61,659**	$ 23,910
Forgiveness of debt from Canada [note 5]	–	18,053
Forgiveness of debt from the Province of New Brunswick [note 5]	–	19,696
Contributed capital, end of year	**$ 61,659**	$ 61,659

7. Net Change in Non-Cash Working Capital Balances

	1997	1996
	(in thousands of dollars)	
Decrease (increase) in current assets		
Accounts receivable	**$ 1,187**	$ (1,485)
	1,187	(1,485)
Increase (decrease) in current liabilities		
Accounts payable and accrued charges	**2,418**	1,076
Deferred revenues	**(2,375)**	2,380
Grants in lieu of municipal taxes	**157**	(40)
	200	3,416
	$ 1,387	$ 1,931

8. Related Party Transactions

During the year the Corporation paid $286,162 [1996-$389,094] to Canada Ports Corporation as its share of that Corporation's head office expense.

9. Transportation System Review

The national marine transportation system has been and continues to be under review by the Government of Canada. The effect of this review is the proposed implementation of a new *Canada Marine Act* superceding the *Canada Ports Corporation Act*. At this time, the impact upon the Corporation is not known.

10. Commitments

In accordance with a policy concerning payment of dividends to the Canadian government, the Corporation is required to pay a dividend, in respect to 1997, based on a method of calculation using net earnings. This dividend, payable before March 31, 1998, amounts to approximately $91,446 for 1997 and has been applied against retained earnings.

Board of Directors

Peter S. Glennie, Q.C. *
Chairman
Patterson Palmer Hunt Murphy
Saint John, New Brunswick

David L. Doyle *
Vice Chairman
Teed Saunders Doyle and Co.
Saint John, New Brunswick

Malcolm R. Baxter * / **
Baxter Foods Limited
Saint John, New Brunswick

William R. Leahy **
Centennial McMillan Lingley
Saint John, New Brunswick

Keri L. Walker **
Buckley and Walker
Sussex, New Brunswick

* Member, Executive Committee
** Member, Audit Committee

Officers of the Corporation

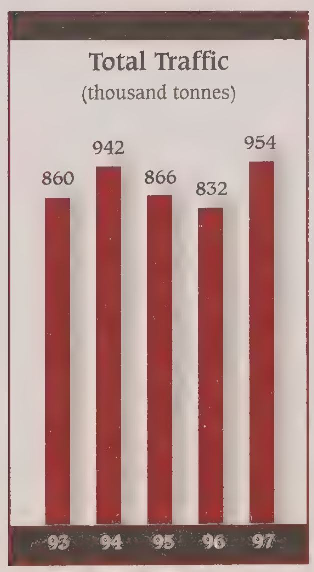
Peter S. Glennie, Q.C.
Chairman

David L. Doyle
Vice Chairman

Alwyn G. Soppitt
President and Chief Executive Officer

Ardith L. Bartlett
Corporate Secretary

St. John's Port Corporation 1997



Joint Message from the Chairman of the Board and the Port Manager and Chief Executive Officer

The St. John's Port Corporation is pleased to submit its Annual Report on the financial results and operational activities of the Corporation for the year 1997.

The Port of St. John's is Canada's most easterly port, serving primarily the Newfoundland economy through the handling of containerized cargo to and from Central Canada and the Maritimes. Serving ships of many nations, the port is strategically located near the main shipping lanes of the North Atlantic and is close to the Grand Banks; an area containing large oil reserves and one of the most diverse marine ecosystems in the world.

In 1997, total port traffic was 953,502 tonnes, up 14.5 percent from 832,455 tonnes in 1996. Factors contributing to the positive variance include a 3.9 percent increase in containerized general cargo. During 1997, the port handled 355,597 tonnes of containerized general cargo in comparison to 342,278 tonnes in 1996. Total number of TEUs moving over port facilities in 1997 amounted to 85,665 compared to 83,983 units in 1996. As well, the number of trailer units discharged totalled 9,501 units, a 29.2 percent increase over 1996. New vehicles delivered to St. John's in 1997 increased significantly compared to the previous year. Approximately 17,000 new vehicles were unloaded at port facilities in 1997, an increase of 38.8 percent. Total volume of petroleum products discharged at the port in 1997 amounted to 336,000 tonnes, down slightly from 1996. Along with the strong growth in cargo handled at the Corporation's facilities in 1997, the port saw a 37 percent increase in commercial vessel arrivals during the comparison period. In 1997, the total number of commercial vessel arrivals recorded at the port totalled 972 compared to 706 in 1996. Ongoing offshore oil exploration and development on the Grand Banks continue to have a positive impact on vessel traffic at the Port of St. John's.

Net income for 1997 was $593,000, which compares favorably with the net income of $609,000 for 1996. A decline in rental income was more than offset by increases in other operating revenues, such as offshore oil activity. Operating expenses were higher in 1997 mainly as a result of the cost associated with the closure of the Ports Canada Police detachment at the port. Overall, the 1997 financial results were very positive in that most budgeted targets were either achieved or exceeded.

During 1997, approximately $500,000 was expended to maintain the structural integrity of port facilities, through completion of engineering investigations and construction projects. These undertakings are part of an ongoing program, which ensure a safe operating environment for port users.

During 1997, the Corporation renewed an agreement with its largest terminal operator, Oceanex. This agreement provides them with a potential tenure of ten years. A lack of surplus property to accommodate expansion and marine development within the port's major cargo terminal has been a major issue for many years. The Corporation continues to make strong representation to Transport Canada in an effort to obtain unused portions of the former Canadian National Railway lands adjacent to the terminal for its own use and development to better serve affected port users.

The Port of St. John's continued to play a vital role in 1997 as the service centre for the Hibernia oil field. Located on the Grand Banks approximately 315 kilometers east-southeast of St. John's, Hibernia is estimated to contain 666 million barrels of recoverable oil, 28.7 billion cubic metres of natural gas, and 111 million barrels of natural gas liquids. On November 17, 1997, the first oil flowed to the Hibernia platform at a rate of about 45,000 bpd per well drilled. This marks a very important milestone in the development of the offshore oil industry on the Grand Banks of Newfoundland.

On January 15, 1998, the Canada-Newfoundland Offshore Petroleum Board approved the Terra Nova Canada-Newfoundland Development Plan. The Terra Nova oil field is located 350 kilometers east-southeast of the Port of St. John's and is the second largest field off Canada's east coast. It is estimated that the total recoverable oil reserves in the field are 300-400 million barrels. The Port of St. John's is poised to provide the service requirements for this discovery, which is expected to start up with first oil anticipated by the end of the year 2000.

The Port of St. John's continues to lead the province in total regional fish landings, despite the groundfish moratorium. During 1997, over 230 small commercial vessels discharged 16 million pounds of different fish species at the port compared to 11 million in 1996. The St. John's Port Corporation is confident that this sector of the regional fishery will continue to grow over the long term.

During 1997, the St. John's Port Corporation continued to focus on marketing strategies designed to consolidate the Port of St. John's as the principal intermodal gateway for Newfoundland and Labrador and the logical service centre for servicing oil exploration and developments on the east coast of Canada.

The Corporation also worked closely with the City of St. John's to promote the port/city's market position as a viable destination for cruise related activity, specifically as a home port, a port of call, and a point of origin/termination for cruise itineraries. As a result of the St. John's Port Corporation's well-planned marketing strategy in 1997, the port played host to seven cruise ship visits compared to four the previous year. Passenger satisfaction is the key to the development of St. John's as an enticing cruise destination. Surveys were carried out on board cruise ships in 1997 to determine the level of passenger satisfaction. Overall, passengers gave rave reviews about their visit to the port city. The highest ratings were given to shore excursions and the friendliness of local people.

The St. John's Port Corporation wishes to advise its shareholder, the Government of Canada, that all necessary administrative and financial procedures and controls are in place to ensure assets are safeguarded and that the port has made significant progress in achieving its objectives for the operating year 1997.

The Board and staff of the St. John's Port Corporation would like to take this opportunity to thank port users for their support over the past year.

Melvin Woodward

Melvin Woodward
Chairman of the Board

David J. Fox

David J. Fox, P. Eng.
Port Manager and Chief Executive Officer

Auditors' Report

To the Honourable David Collenette, P.C., M.P.
Minister of Transport

We have audited the balance sheet of St. John's Port Corporation as at December 31, 1997 and the statements of earnings and surplus and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatements An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1997 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and Regulations, the *Canada Ports Corporation Act* and the bylaws of the Corporation.

Doane Raymond

Chartered Accountants
St. John's, Newfoundland
February 6, 1998

Balance Sheet

	1997	1996
December 31		
Assets		
Current		
Cash	$ 54,368	$ 40,800
Investments (Note 3)	6,080,160	5,202,391
Accounts receivable	577,541	537,485
	6,712,069	5,780,676
Fixed (Note 4)	11,413,533	11,779,103
	$ 18,125,602	$ 17,559,779
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 376,087	$ 300,801
Grants in lieu of municipal taxes	126,777	167,226
Deferred revenues	152,046	157,143
	654,910	625,170
Accrued employee benefits	186,034	231,731
	840,944	856,901
Equity of Canada		
Contributed capital	10,131,636	10,131,636
Surplus	7,153,022	6,571,242
	17,284,658	16,702,878
	$ 18,125,602	$ 17,559,779

See accompanying notes to the financial statements.

On behalf of the Board:

Melvin Woodward

Melvin Woodward
Chairman of the Board

David J. Fox

David J. Fox, P. Eng.
Port Manager and Chief Executive Officer

St. John's Port Corporation

Statements of Earnings and Surplus

Year ended December 31	1997	1996
Revenue from operations	$ 3,170,094	$ 3,084,430
Operating and administrative expenses	2,115,296	1,762,739
Depreciation	620,263	848,424
Grants in lieu of municipal taxes	68,448	129,777
	2,804,007	2,740,940
Earnings from operations	366,087	343,490
Investment income	226,600	265,584
Net earnings	$ 592,687	$ 609,074
Surplus, beginning of year	$ 6,571,242	$ 5,962,168
Net earnings	592,687	609,074
Dividend to Canada	(10,907)	
Surplus, end of year	$ 7,153,022	$ 6,571,242

See accompanying notes to the financial statements.

Statement of Changes in Financial Position

Year ended December 31	1997	1996
Cash derived from (applied to)		
Operating		
Net earnings	$ 592,687	$ 609,074
Depreciation	620,263	848,424
Other non-cash items	(45,697)	29,193
	1,167,253	1,486,691
Change in non-cash operating working capital (Note 5)	78,100	5,054
	1,245,353	1,491,745
Financing		
Change in construction payables	(88,416)	115,014
Dividend to Canada	(10,907)	
	(99,323)	115,014
Investing		
Purchase of fixed assets	(263,838)	(631,210)
Disposal of fixed assets	9,145	1,000
	(254,693)	(630,210)
Net increase in cash	891,337	976,549
Cash and short term investments		
Beginning of year	5,243,191	4,266,642
End of year	$ 6,134,528	$ 5,243,191

See accompanying notes to the financial statements.

1. **Local port corporation**
   In accordance with the *Canada Ports Corporation Act*, a petition for the establishment of a local port corporation at the Port of St. John's was approved and the St. John's Port Corporation was established effective June 1, 1985.

   In accordance with the *Canada Ports Corporation Act*, the assets, liabilities and equity were transferred at their carrying values in the accounts of the Canada Ports Corporation – Port of St. John's to the St. John's Port Corporation.

2. **Summary of significant accounting policies**
   Investments
   The investments, which are direct and guaranteed securities of Canada, are shown at amortized cost. Premiums or discounts are amortized over the periods to maturity.

   Fixed assets
   Fixed assets are recorded at cost, except for those transferred to the Corporation from Canada, which are recorded at appraised or fair market value established at the time of transfer. Grants towards capital projects received from Canada and from third parties are deducted from the cost of the related fixed assets.

   Depreciation
   Depreciation is recorded on the straight-line basis for the full year, commencing with the year the asset becomes operational, using rates as follows:

Dredging	2.5%
Berthing structures	2.5-10%
Buildings	2.5-10%
Utilities	3.3-10%
Roads and surfaces	2.5-10%
Machinery and equipment	5-100%
Office furniture and equipment	20-33.3%

Pension costs
All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Contributions to the plan are required from both the employees and the Corporation. The annual contributions for pensions are recognized in the accounts on a current basis.

Grants in lieu of municipal taxes
The expense for grants in lieu of municipal taxes is based on estimated municipal assessments adjusted in accordance with the *Municipal Grants Act*. Grants are paid after the amounts have been audited by the Municipal Grants Division of Public Works and Government Services Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

Employee benefits
The Corporation accrues in its accounts, annually, the estimated liabilities for severance pay, annual leave and overtime compensatory leave, which are payable to its employees in subsequent years in accordance with its policy.

3. **Investments**

	1997		1996	
	Amortized Cost	**Face Amount**	Amortized Cost	Face Amount
Short term	**$ 6,080,160**	**$ 6,182,000**	$ 5,202,391	$ 5,311,000

4. **Fixed assets**

	1997			1996
	Cost	**Accumulated Depreciation**	**Net Book Value**	Net Book Value
Land	**$ 5,244,905**	**$**	**$ 5,244,905**	$ 5,090,796
Dredging	**19,500**	**975**	**18,525**	19,013
Berthing structures	**11,277,062**	**7,970,457**	**3,306,605**	3,468,126
Buildings	**1,427,690**	**1,017,725**	**409,965**	384,757
Utilities	**3,540,878**	**1,974,779**	**1,566,099**	1,696,174
Roads and surfaces	**4,019,840**	**3,370,685**	**649,155**	728,650
Machinery and equipment	**360,321**	**217,200**	**143,121**	143,408
Office furniture and equipment	**276,022**	**250,864**	**25,158**	30,937
Projects under construction	**50,000**		**50,000**	217,242
	$ 26,216,218	**$ 14,802,685**	**$ 11,413,533**	$ 11,779,103

5. Change in non-cash operating working capital

	1997	1996
Accounts receivable	$ (40,056)	$ 4,449
Accounts payable and accrued liabilities	163,702	(64,614)
Grants in lieu of municipal taxes	(40,449)	49,062
Deferred revenues	(5,097)	16,157
	$ 78,100	$ 5,054

6. Related party transactions

During the year the Corporation paid $87,244 (1996 - $67,444) to Canada Ports Corporation as its share of that Corporation's head office expense.

7. Marine policy review

The national marine transportation system has been and continues to be under review by the Government of Canada. The effect of this review is the proposed implementation of a new *Canada Marine Act* superceding the *Canada Ports Corporation Act*. At this time, the impact upon the Corporation is not known.

Board of Directors

Melvin Woodward *
Chairman
President and Chief Executive Officer
Woodward Group of Companies
Goose Bay, Labrador

Sean Hanrahan *
Vice Chairman
Lawyer
St. John's, Newfoundland

Margaret Green Warren * / **
Legislative Assistant
St. John's, Newfoundland

Carol McDonald **
Retired Business Person
St. John's, Newfoundland

Donald C. Peckham
Principal
PM Professional Management Services
St. John's, Newfoundland

* Member, Executive Committee
** Member, Audit Committee

Officers of the Corporation

Melvin Woodward
Chairman

Sean Hanrahan
Vice Chairman

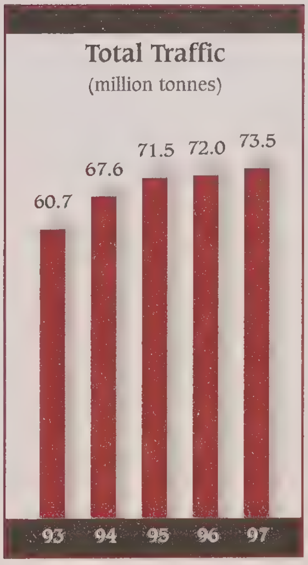
David J. Fox, P. Eng.
Port Manager and Chief Executive Officer

Brian Scott
Manager, Finance and Administration

Captain Henry Flight
Harbour Master

Kathleen Murphy
Corporate Secretary

Vancouver Port Corporation 1997



Joint Message from the Chairman of the Board and the President and Chief Executive Officer

Thanks to the combined efforts of all our stakeholders and partners – from our corporation's people to labour unions, shippers, terminal operators, service providers, industry associations, trucking companies, railways and cruise lines – a record 73.5 million tonnes of cargo and 816,537 revenue cruise passengers passed through Port Vancouver in 1997.

Container volumes expanded significantly to 724,154 twenty foot equivalent units (TEUs), up 17 percent from 616,692 TEUs in 1996. Re-capturing Canadian-destined containers moving through U.S. Pacific northwest ports contributed to the increase of container volumes through Vancouver.

Dry bulk cargo grew by two percent to 56.3 million tonnes. Coal growth, in spite of tough international competition, increased by three percent, at 28.5 millions tonnes. Potash realized the largest gain of 14 percent to 4.3 million tonnes. Sulphur hit a decade high of 5.5 million tonnes, up nine percent. Phosphate rock advanced by six percent, totaling 1.1 million tonnes. Grain recorded a slight increase of one percent, at 12.4 million tonnes. Forest products including lumber and wood pulp remained relatively flat at 9.2 million tonnes.

1997 was also the 15th consecutive year of record growth for Port Vancouver's cruise industry, with 816,537 revenue passengers, a 16 percent increase over 1996.

Performance to Plan Linked to Our Five Core Values

The Vancouver Port Corporation (VPC) sought not only to build on the port's reputation for world-class infrastructure and customer-driven service but also to advance its goal of fostering strong, value-added relationships with all its partners and customers. To that end, the VPC continued to focus on five core values to guide its business and operational strategies.

Our Commercial Customers

Port Vancouver has the capacity, the infrastructure, the workforce and the savvy to help our customers maintain their competitive edge.

For example, 1997 saw the opening of Deltaport, our new container facility, at Roberts Bank. The completion of this $224 million container terminal was the result of a partnership of the VPC, TSI Terminal Systems Inc., Canadian National and Canadian Pacific Railway. Capable of handling 600,000 TEUs annually, Deltaport effectively doubled Port Vancouver's container handling capacity to 1.2 million TEUs. The official opening, which took place on June 25, was celebrated with a colourful ceremony carried live on the Internet – an industry first!

VPC's focus on customers continued throughout the year with over 1,000 personal visits to our customers in B.C., Canada, the U.S. and across the world. VPC Trade Development staff and our international representatives listened to their needs, worked to develop innovative solutions and services for existing customers and creating opportunities to convince others to choose Port Vancouver. The value of this dialogue is evidenced by the fact that this port has succeeded in attracting even more carriers, which in turn provides more capacity for shippers. Indeed, our people worked with both Canadian transcontinental railways, Canadian National Railway and Canada Pacific Railway, to position Port Vancouver as "North America's Gateway" for container lines and shippers. In late 1997, the VPC partnered with Inland Container Terminals to support the activities of importers and exporters using Deltaport.

The VPC also organized two "Port Users Conferences" in 1997 – one in Regina (April) and the second in Medicine Hat (November). VPC's Board members and senior Port Vancouver partners participated in sessions with key industry and government representatives in each city to develop mutual opportunities.

VPC also looked to upgrading access to the port in 1997 by completing the new McGill Street Overpass directly connecting the TransCanada Highway to our Port Road, made progress on a dedicated port roadway on the south shore, completed Centerm cranes 3 and 4 structural upgrading and building Deltaport Way to the Roberts Bank area.

VPC successfully negotiated a Heads of Agreement with Greystone related to the expansion of Vancouver convention facilities on our central waterfront lands. In 1998, Greystone, partnering with the Marriott Hotel chain, will proceed to the next phase of negotiations with the provincial government. If the proposal goes ahead, our port will benefit from the addition of a third cruise berth at Canada Place.

Our Financial Health

The VPC, like any other business, is run on commercial discipline. We constantly strive to reduce operating costs and maintain our financial independence. 1997 was no exception. The VPC had operating revenues of $71.5 million, up from $64.8 million in 1996.

The VPC also looked to the future to develop alternate means of generating income in support of infrastructure development and replacement for the port through new traditional and non-traditional sources. An example of such an initiative was linked to the VPC's Microsoft awarding winning Portview system which saw the completion of an Memorandum of Understanding (MOU) with Lockheed Martin to market this new software package.

Our Environment

VPC protects the natural environment of the port by continuing to provide strategic environmental stewardship, to create environmental enhancement based on good science, to undertake ongoing environmental audits and monitoring, to nurture productive working relationships with various stakeholders and to deliver tangible benefits to the community.

Port Vancouver, with the cooperation of the Chamber of Shipping of British Columbia, introduced a new "Ballast Water Exchange Program", becoming the first port in Canada to make mid-ocean deballasting mandatory instead of voluntary. The VPC designed and supervised the installation of habitat rafts at Ballantyne as partial mitigation for Centerm fill requirements. As well, the VPC participated with BIEAP (Burrard Inlet Environmental Action Program) in a project to map shoreline habitat.

Our Reputation

In 1997, as always, we worked closely with all our port partners and stakeholders to enhance our reputation as a safe, competitive, technologically advanced, full-service port with a strong working relationship with our eight neighbouring communities.

To this end, VPC oversaw the transition to a new policing and security model which included the selection of a professional and highly visible security service, the appointment of a chief of security and a multi-million dollar contribution to local police forces working the waterfront. Most importantly, the VPC committed to contribute, in perpetuity, $350,000 annually toward the establishment of a new waterfront crime unit with CLEU (Co-ordinated Law Enforcement Unit).

We continued to hold an open and productive dialogue with our municipal neighbours through on-going meetings with local mayors, participation in waterfront studies, and community workshops. Building

on the port's reputation, our summer outreach program visited most of the schools, festivals and fairs in the lower mainland. VPC's scholarship program was fully established with 15 awards in high schools, colleges and universities in B.C., Alberta and Saskatchewan. VPC and the Tsawwassen First Nations signed a Memorandum of Understanding, an important first step in developing a strong relationship for the future. Port Day '97 was the most successful ever, bringing our port's message to over 15,000 residents.

Our People

Central to the success of Port Vancouver is its people. For its part, VPC is committed to adding value to port businesses by maintaining a workforce that is accountable, service-oriented and adaptive to change. Our people are encouraged to "challenge the system" and add maximum value to our customers' business.

VPC's Human Resources renewed its education policy, which provides employees with financial assistance to undertake continuous education, training and development to enhance their skills in the workplace for both today and tomorrow. Cross functionality is encouraged so that all our people can understand our customers' challenges in the global marketplace.

Labour stability was also achieved at the VPC with the ratification of a new collective agreement with the International Longshore and Warehouse Union Local 517. Good faith and a strong working relationship ensured the three-year agreement was negotiated in record time and ratified before the old agreement had even expired.

Together these values have guided VPC to achieve the type of success that will continue to position Port Vancouver as Canada's Gateway to the Asia Pacific and the "Port of Choice" on the west coast of North America.

Carole Taylor

Carole Taylor
Chairman of the Board

Norman C. Stark
President and Chief Executive Officer

Auditors' Report

To the Honourable David Collenette, P.C., M.P.
Minister of Transport

We have audited the consolidated balance sheet of the Vancouver Port Corporation as at December 31, 1997 and the consolidated statements of operations and retained earnings and changes in financial position for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, and the charter and by-laws of the Corporation.

KPMG

Chartered Accountants
Vancouver, British Columbia
February 6, 1998

Vancouver Port Corporation

Consolidated Balance Sheet

	1997	1996
December 31, 1997	*(in thousands of dollars)*	
Assets		
Current assets		
Cash	$ 3,390	$ 2,411
Investments (note 2)	38,798	80,777
Accounts receivable	11,718	10,774
	53,906	93,962
Long-term receivables (note 3)	1,609	11,637
Debt retirement fund (note 4)	45,500	–
Property and equipment (note 5)	430,106	427,733
Deferred costs, net of amortization	2,000	1,040
	$ 533,121	$ 534,372
Liabilities and Equity of Canada		
Current liabilities		
Accounts payable and accruals	$ 29,429	$ 32,062
Grants in lieu of municipal taxes	3,798	2,024
Deferred revenue	4,772	5,984
	37,999	40,070
Accrued employee benefits	1,530	1,636
Long-term obligations (note 6)	127,498	131,638
	167,027	173,344
Equity of Canada		
Contributed capital	150,259	150,259
Retained earnings	215,835	210,769
	366,094	361,028
Commitments (note 9)		
Contingencies (note 10)		
	$ 533,121	$ 534,372

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Carole Taylor

Carole Taylor
Chair

James W.Y. Lee
Director

Vancouver Port Corporation

Consolidated Statement of Operations and Retained Earnings

Year ended December 31, 1997	1997	1996
	(in thousands of dollars)	
Operating revenue	$ 71,454	$ 64,800
Expenses:		
Operating and administrative expenses	28,281	28,384
Costs of disbanding Ports Canada police services (note 7)	6,429	–
Grants in lieu of municipal taxes	4,641	5,119
Depreciation	17,187	10,776
	56,538	44,279
Income from operations	14,916	20,521
Gain on disposal of fixed assets	5,382	–
Investment income	3,004	4,234
Interest expense	(9,980)	(6,617)
	(1,594)	(2,383)
Recoveries of prior years' grants in lieu of municipal taxes (note 10)	1,428	7,514
Write-down of property and equipment (note 5)	(9,684)	(26,160)
Net income (loss) for the year	5,066	(508)
Retained earnings, beginning of year	210,769	214,540
	215,835	214,032
Dividend payment to Canada	–	(3,263)
Retained earnings, end of year	$ 215,835	$ 210,769

See accompanying notes to consolidated financial statements.

VANCOUVER PORT CORPORATION

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended December 31, 1997	1997	1996
	(in thousands of dollars)	
Cash provided by (used for):		
Operations		
Net income (loss) for the year	$ 5,066	$ (508)
Items not involving cash:		
Depreciation and amortization	17,187	10,776
Gain on disposal of fixed assets	(5,382)	–
Write-down of fixed assets	9,684	26,160
Other	(26)	1,052
Changes in non-cash operating working capital	(3,015)	1,078
	23,514	38,558
Financing		
Long-term obligations, net	(4,140)	87,314
Dividend payment to Canada	–	(3,263)
Long-term receivables	10,028	365
	5,888	84,416
Investments		
Additions to property and equipment, net	(23,835)	(97,395)
Debt retirement fund	(45,500)	–
Deferred costs	(1,067)	–
	(70,402)	(97,395)
Increase (decrease) in cash and short-term investments	(41,000)	25,579
Cash and short-term investments, beginning of year	83,188	57,609
Cash and short-term investments, end of year	$ 42,188	$ 83,188

See accompanying notes to consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS. YEAR ENDED DECEMBER 31, 1997. (TABULAR AMOUNTS IN THOUSANDS OF DOLLARS)

Local Port Corporation

The Vancouver Port Corporation was established on July 1, 1983 as a local port corporation pursuant to the *Canada Ports Corporation Act*. The Corporation is exempt from income taxes.

The Corporation's mission is to facilitate and expand the movement of cargo and passengers through the Port of Vancouver, to provide facilities, services and technologies that are competitive, safe, commercially viable, dependable and customer oriented, and to operate with broad public support in the best interests of Canadians.

The national marine transportation system has been reviewed by the Government of Canada. As a result of this review, it is proposed that, in 1999, the *Canada Marine Act* will supersede the *Canada Ports Corporation Act*. At this time, the financial impact of this change on the Corporation is not known.

1. **Significant accounting policies**

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates. A summary of the significant accounting policies of the Corporation is as follows:

(a) Consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary, Canada Place Corporation. All significant intercompany accounts and transactions have been eliminated.

(b) Property and equipment

Property and equipment are recorded at cost. Depreciation is calculated on the straight-line basis, commencing with the month the asset becomes operational, at rates based on the estimated useful life of the assets as follows:

Asset	Rate
Dredging	15 to 40 years
Berthing structures, buildings, roads and surfaces	10 to 40 years
Utilities	10 to 33 years
Machinery and equipment	1 to 20 years
Office furniture and equipment	3 to 5 years

(c) Deferred costs

Deferred costs are amortized over periods from 20 to 40 years.

(d) Pension costs

All permanent employees of the Corporation are covered by either the Public Service Superannuation Plan administered by the Government of Canada, or a private group retirement plan. Contributions to these plans are required from the employees and the Corporation. Although both plans are defined benefit plans, the contributions represent the total pension liability of the Corporation and are recognized in the accounts on a current basis. The Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account or for indexation payments under the *Supplementary Retirement Benefits Act*.

(e) Grants in lieu of municipal taxes

Grants in lieu of municipal taxes are estimated by the Corporation in accordance with the *Municipal Grants Act*. Accruals are re-evaluated each year and changes, if any, are made in the current period's financial statements based on the best available information, including the results of audits by the Municipal Grants Division of Public Works Canada.

(f) Employee benefits

The Corporation accrues estimated liabilities for severance pay and annual leave. These benefits are provided under collective agreements and corporate policy.

2. **Investments**

Short-term investments, which are classified as current assets, are in Government of Canada treasury bills. At December 31, 1997 and 1996, the market value of these treasury bills approximated their carrying value.

3. **Long-term receivables**

	1997	1996
Long-term agreements for sale, bearing interest at 8.525% per annum, receivable in blended annual installments totalling approximately $1.3 million, maturing between 1998 and 2012, repayable at any time	$ –	$ 11,280
Less current portion (included in accounts receivable)	–	(357)
	–	10,923
Amounts due from municipalities, net of current portion	–	627
Long-term rental receivables, net of current portion	**867**	–
Notes receivable from tenants	**742**	–
Other	–	87
	$ 1,609	$ 11,637

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS. YEAR ENDED DECEMBER 31, 1997. (TABULAR AMOUNTS IN THOUSANDS OF DOLLARS)

4. Debt retirement fund

The debt retirement fund comprises Government of Canada treasury bills of $35,498,000 and Government of Canada bonds of $10,002,000 with yields ranging from 4.45% to 5.56% and maturing between March 1, 1999 and May 1, 2000. The Board of Directors has approved a resolution to allocate, effective December 31, 1997, $45,500,000 of investments solely for the purpose of retiring debt owing to the Export Development Corporation at the time the obligations are due in 2005 and 2006 (see note 6). This debt retirement fund will grow with accumulated earnings.

5. Property and equipment

	1997			1996
	Cost	Accumulated depreciation	**Net book value**	Net book value
Land	$ 94,258	$ –	**$ 94,258**	$ 91,207
Dredging	2,687	388	**2,299**	271
Berthing structures	136,613	36,967	**99,646**	51,975
Buildings	124,311	39,525	**84,786**	81,457
Utilities	45,057	13,210	**31,847**	10,226
Roads and surfaces	86,461	33,095	**53,366**	10,562
Machinery and equipment	64,131	22,565	**41,566**	15,273
Office furniture and equipment	11,683	9,459	**2,224**	3,644
Projects under construction	20,114	–	**20,114**	163,118
	$ 585,315	$ 155,209	**$ 430,106**	$ 427,733

During the years ended December 31, 1997 and 1996, revaluations of a capital asset of the Corporation's wholly-owned subsidiary, Canada Place Corporation, were undertaken. As a result, the carrying amount of a building was written-down by $8,505,000 in 1997 and $26,160,000 in 1996 to its net recoverable amount, based on projected undiscounted future net cash flows. In addition in 1997, the Corporation wrote-off a capital asset costing $1,179,000 which was determined to be of no future benefit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS. YEAR ENDED DECEMBER 31, 1997. (TABULAR AMOUNTS IN THOUSANDS OF DOLLARS)

6. Long-term obligations

	1997	1996
Unsecured loan from Canada, bearing interest at 7.5% repayable in blended annual installments maturing December 31, 2000	$ –	$ 1,710
Unsecured loan from Export Development Corporation, bearing interest at 8.525%, repayable in quarterly installments, amortized over 15 years, maturing May 31, 2005	40,765	42,614
Unsecured loan from Export Development Corporation, bearing interest at 8.345%, repayable in quarterly installments, amortized over 15 years, maturing May 31, 2006	40,073	41,671
Unsecured loan from Export Development Corporation, bearing interest at 6.538%, repayable in quarterly installments, amortized over 15 years, maturing November 28, 2006	49,472	51,600
Owing to municipalities and being repaid monthly, on a non-interest bearing basis, until 2003	4,271	–
	134,581	137,595
Less current portion (included in accounts payable)	(7,083)	(5,957)
	$ 127,498	$ 131,638

Principal repayment requirements over the next five years are as follows:

1998	$ 7,023
1999	7,338
2000	7,676
2001	8,035
2002	8,436
	$ 38,508

7. Costs of disbanding Ports Canada Police Services

In 1996, Canada Port Corporation decided to disband Ports Canada Police. As a result, the Vancouver detachment of Ports Canada Police was disbanded July 24, 1997. Vancouver Port Corporation incurred a total cost of $6,429,000 which included the cost of the agreements with the municipalities and severance payments to staff of the Vancouver detachment of Ports Canada Police.

8. Related party transactions

In addition to the related party transactions described elsewhere in these consolidated financial statements, the Corporation paid $837,557 (1996 – $1,221,544) to Canada Ports Corporation for its share of that corporation's operating expenses.

9. Commitments

Contractual obligations for the construction, purchase and lease of property and equipment as at December 31, 1997 are estimated at $21.8 million (1996 – $46.2 million).

It is the policy of all port corporations that each port corporation pay a dividend to Canada not later than March 31 based on a corporation's prior year's income. Dividends are recorded by the Corporation as a liability when declared.

10. Contingencies

(a) At December 31, 1997, the Corporation had claims from certain Lower Mainland municipalities for grants in lieu of taxes of approximately $11.0 million (1996 – $10.1 million) greater than the amount accrued in the financial statements. Management is confident that the claims by municipalities not accrued in the financial statements will not result in additional cost to the Corporation.

During 1997, the Municipal Grants Division of Public Works Canada completed audits at certain municipalities. As a result of the 1997 audits, it is now evident that the Corporation expensed, in prior years, a total of $5.5 million for grants in lieu of taxes more than was required. The benefit of this amount has been recorded in the statement of operations except that the potential benefit of $4.0 million (1996 – $5.2 million) for overpayments of grants in lieu of taxes in prior years has not been recorded due to uncertainty.

(b) There are claims against the Corporation which have not been accrued in these financial statements. In management's opinion, the likelihood of these claims succeeding is not determinable. The effect, if any, of the ultimate resolution of these matters will be accounted for in the accounts in the year a liability is estimable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS. YEAR ENDED DECEMBER 31, 1997. (TABULAR AMOUNTS IN THOUSANDS OF DOLLARS)

11. Financial instruments

The carrying value of current assets, long-term treasury bills and current liabilities approximates their fair value due to the relatively short period to maturity of these financial instruments. At December 31, 1997, the fair value of other financial assets and financial liabilities in the consolidated balance sheet is as follows:

	1997		1996	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term receivables	$ 1,609	$ 1,609	$ 11,010	$ 11,010
Long-term bonds	10,002	9,915	–	–
Long-term obligations	134,581	145,277	137,595	145,214

The fair values of the Corporation's long-term receivables and long-term loans are determined using cash flows discounted at a rate equal to the prevailing market rate of interest for financial instruments having substantially the same terms and characteristics.

12. Comparative figures

Certain of the 1996 comparative figures have been restated to conform with the presentation adopted in the current year.

BOARD OF DIRECTORS

Carole Taylor [1]
Chairman of the Board
Vancouver, British Columbia

Denis Côté [1/2/4]
Canmore, Alberta

James Lee [2/3/4]
Vancouver, British Columbia

Joan Lew [3]
Vancouver, British Columbia

Gordon W. Staseson [1/2/3]
Regina, Saskatchewan

Thomas G. White [2/4]
Williams Lake, British Columbia

1 Member, Executive Committee
2 Member, Planning and Development Committee
3 Member, Public Affairs Committee
4 Member, Audit and Budget Committee

OFFICERS OF THE CORPORATION

Carole Taylor
Chairman of the Board

Norman C. Stark
President and Chief Executive Officer

Tom Winkler
Vice President, Finance and Administration

Gordon J. Houston
Vice President, Operations

Kevin G. Little
Vice President, Business Development and Customer Service

Warren D. McCrimmon
Corporate Secretary

Corporate Directory

Board of Directors

Carole Taylor
Chairman of the Board
Vancouver, British Columbia

Neil MacNeil
President and Chief Executive Officer
Ottawa, Ontario

Michel Bérubé
Chairman of the Board
Port of Québec Corporation
Charlesbourg, Quebec

Raymond Lemay
Chairman of the Board
Montréal Port Corporation
Montréal, Quebec

N.K. Logan
Murillo, Ontario

A.E. Maher
Dalhousie, New Brunswick

L.M. Mirwaldt, Q.C.
The Pas, Manitoba

Nels Nelson
Grimshaw, Alberta

K.R. Nurse
Regina, Saskatchewan

Mervyn C. Russell
Chairman of the Board
Halifax Port Corporation
Halifax, Nova Scotia

L.T. Salloum, Q.C.
Kelowna, British Columbia

Executive Committee

Chairman
Carole Taylor

Members
Neil MacNeil
A.E. Maher
K.R. Nurse
Mervyn C. Russell

Audit Committee

Chairman
Mervyn C. Russell

Members
Nels Nelson
K.R. Nurse

Officers of the Corporation

Carole Taylor
Chairman of the Board

Neil MacNeil
President and Chief Executive Officer

David A. Cuthbertson
Executive Vice-President and Corporate Secretary

Graham Pettifer
Vice-President, Corporate Affairs

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